

# Paris air disaster triggers product liability actions

TWO CLASS ACTION SUITS totalling \$134.5 million were filed against McDonnell-Douglas Corp., charging negligence and breach of warranty in the production and sale of the giant DC10 jetliner that crashed outside Paris March 3 killing 346. (*Business Insurance*, March 18.)

The suits were filed by survivors of the crash victims. One class action asking \$125 million was filed in Los Angeles federal district court by Edith Mary Hope of London on behalf of her late husband.

A second class action against the aircraft manufacturer was filed by F. Lee Bailey in Brooklyn federal district court on behalf of the survivors of Nancy Kalinski of New York, who died in the crash. This suit asks \$9.5 million.

Attorneys close to the case expect more suits pending a ruling by the California court in the next month or so on the appropriateness of class actions in this case, and the applicability of California law for a crash in France which killed mostly foreigners.

In separate but related events, *Business Insurance* learned:

- McDonnell-Douglas has \$15 million primary product liability insurance coverage underwritten by Associated Aviation Underwriters;
- Lloyd's is the excess product liability carrier to a limit of \$150 million on the McDonnell-Douglas coverage;
- Associated Aviation Underwriters reportedly is defer-

ring to the excess underwriter, Lloyd's, for purposes of defense of the insured in this case. AAU is, in effect, making the entire \$15 million policy available to Lloyd's.

Douglas Aircraft officials called a press conference last week in Long Beach, Ca. and disclosed that a cargo latch safety device was apparently missing from the plane when it left the factory for delivery to Turkish Airlines.

Sources close to McDonnell-Douglas told this magazine that there is no indication whatever that underwriters would not cover the losses under existing product liability policies. There has been some question of McDonnell-Douglas's effort to make necessary modifications in door latches

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# business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

## Suits follow film makers deaths in Ca. airline crash

By CHARLES WINGIS

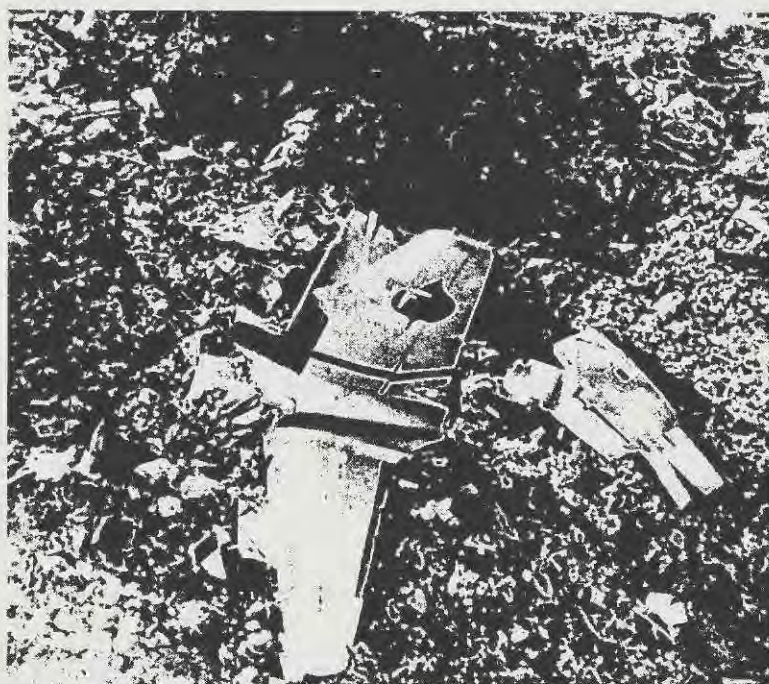
LOS ANGELES—A wrongful death suit asking \$5 million in general damages was filed against Sierra Pacific Airlines as a result of the charter plane crash that killed 31 film workers and a five-man plane crew March 13.

The first liability action to be taken in what has been called the film community's worst accident, the suit was filed in superior court here by Mrs. Nancy Jacob, whose husband Donald died in the crash. Mr. Jacob was an employe of Wolper Productions, L.A.-based producer of documentary films for television.

The general damage suit charges negligence against Sierra Pacific and its parent company, Mammoth Mountain Corp., owner of the twin-engine propeller-driven Convair 440 that crashed. Bound for the Hollywood-Burbank Airport, the plane slammed into a mountain near Bishop, Ca., minutes after taking off from the airport there.

A SECOND wrongful death suit against the airline and Mammoth Mountain Corp. has been filed by Robert A. Bunde, husband of actress Irene Bunde, who died in the plane wreck. The suit claims the aircraft was "unsafe" and "unfit" for service and seeks \$500,000 in damages.

Liability and hull coverage on the aircraft included a \$25 million limit and was written by Southeastern Aviation (Calif.) Inc., Los Angeles, suplus lines broker for Lloyd's of London, which underwrite the policy. An industry source said the policy was written only a few days before the mishap. It was the first fatal accident recorded by Sierra Pacific, which also makes regular flights from



Wreckage of chartered plane lies smashed against mountainside, where 31 employes of Wolper Productions and crew of five died. —Wide World

the Owens Valley-Mammoth Mountain resort area into metropolitan Los Angeles.

Wolper's crew had just finished filming scenes from "Primal Man, The Struggle for Survival," third episode of a four-part TV documentary series called "The Travelers Theatre of Man." The series

was being produced for Travelers Insurance Co., one of several insurance carriers which underwrote policies providing coverage.

Travelers holds the workmen's compensation portion of the coverage as well as the flight accident insurance policy which was

*Continued on page 3*

## Extortion covers added to bonds and crime policies

NEW YORK—The Surety Assn. of America and Insurance Services Office jointly filed standard forms and manual rates in all states for extortion insurance endorsements to be added to financial bonds and crime policies.

The form and rates are considered the legal filing for all ISO member insurance companies in 35 states and are generally being followed. The guide rates will be used until there is realistic experience on the line, an ISO spokesman said.

The new standard actually includes two types of endorsements: an endorsement to specifically exclude extortion from the list of named perils on the policy. In the past there were some debatable situations, such as extortion of a bank president whose risk was considered at times to be almost the same as the bank's.

Then, the extortion insurance endorsement is described with a provision that it is available for an additional premium. Corporate

insureds generally buy extortion coverage for a limit equal to or greater than the face value of the original policy.

It is thought that a number of companies are at least willing to write it as an accommodation to regular clients.

According to an ISO filing based on standard no-deductible coverage, the preliminary rates for a company's first location work out to \$5 per \$1,000 for the first \$100,000 layer; \$3 per \$1,000 for the next \$150,000 layer; and \$1 per \$1,000 for over \$250,000 coverage.

**TO DETERMINE** the modified premium for the first location, the insured multiplies the basic rates by a modifier based on annual gross sales. The scale of modifiers goes from 1 to 5, for sales ranging from 0 to \$500 million.

For additional premises, the premium is 50% of the basic rates, without any size modifier.

For example, a corporation having \$60 million in sales wishes to buy \$1 million coverage at 11 locations. The initial premium for \$1 million coverage is \$1,700 which is in turn multiplied by a 2.50 modifier based on the \$60 million sales. The modified premium for the first location is \$4,250. For the 10 additional locations, the premium is \$850 each, bringing the total policy premium to \$12,750.

If a company agrees to participate in losses, ISO divides the amount of insurance by the percentage of participation, and then multiplies the premium by the same percentage.

If a company elects to use a deductible, the discount is determined in accordance with standard ISO rules listed in its manual, a spokesman said.

## Kresge uninsured for ransoms paid; Detroit broker pedals kidnap covers

By PATRICK THOMAS

DETROIT—Kidnappings have been generating an increasing amount of interest in both kidnap insurance and loss prevention, according to a number of sources in the insurance industry.

The kidnappings of four K-Mart store managers or members of their families in various parts of the country have prompted the S. S. Kresge Co., parent of K-Mart, to step up security at its stores. These kidnappings resulted in the

loss of \$65,000 in cash and merchandise, which has not been recovered, though all the kidnap victims were returned unharmed.

**WHILE KRESGE** declined to disclose whether the store manager extortions were insured, sources within the insurance industry indicated that they doubted it.

"Usually, only the company's top executives are covered in a kidnap policy," a broker told *Business Insurance*, "and store managers are not considered top

executives.

"I can only assume the payments in these cases were considered a business risk which the company assumed," he continued. "This coverage is extremely expensive, particularly on a blanket basis. A company the size of Kresge, with that many people to protect, simply could not afford blanket coverage. You can go broke paying premiums, you know."

Two of the kidnappings took place near here; another in

*Continued on page 12*

### Logging injuries

Work injuries and illnesses in the rugged logging industry are the highest in any manufacturing category, CSHA reports. While larger lumber and wood mill companies initiated extensive safety plans, injuries are harder to pare among workers in smaller loggers and mills. **Page 24.**

### D&O liability

Harried condominium developers and managers are showing more interest in the policies, particularly in California. **Page 4.** Special insurance policies are being tailored to fit union officials hit with misconduct suits, very similar to D&O covers available to corporate officials. **Page 16.**

### 'Model' benefit plan

John Hancock Mutual Life Insurance Co., like most group benefit underwriters, would like to establish itself as an employee benefit leader. Thus, the firm spends a whopping 41% of payroll on its own employes benefits, experimenting along the way with new benefits. **Page 48.**

### Steelmaker profile

Inland Steel Co. has a double hazard: the entire Inland steel-making operation is in one location, and fire protection and insurance pose problems in plants literally "on fire" with steel furnaces. There are wide-ranging exposures for the integrated steel producer. **Page 50.**



# DC10 producer charged in crash...

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to make the plane safer, and whether the company's safety efforts went far enough.

Waller B. Smith, director of insurance for United Air Lines, said his company and, to his knowledge, all other lines operating DC10s, has made all modifications on DC10 jumbo jets to insure doors are fully locked.

Mr. Smith said he does not foresee any change in aviation insurance rates on the planes for the period of time it takes to make additional necessary modifications decreed by the Federal Aviation Administration only last month for all DC10 door latches.

It is suspected that improper latching of the DC10 Turkish Airlines cargo door caused it to fly off, triggering sudden depressurization of the aircraft and buckling

the floor and cable system used to control the plane.

The California ruling about the appropriateness of the suit filed there will affect where future suits are filed and how claims are litigated, attorneys said. Passengers ticketed by British European Airways and Air France may also have cause for recovery from those airlines under certain foreign laws, so that the matter is primarily a jurisdictional one now.

**ATTORNEYS INVOLVED** in product liability cases told this magazine that California law is the most liberal in the world on product liability matters, requiring only that there be some proven defect in the product and that this be causally related to the injury of plaintiffs.

Lloyd's investigation will determine whether it will argue that McDonnell-Douglas took all reasonable steps to see that modifications were made on the DC10 doors, as well as all reasonable steps to produce a safe airplane.

Attorney's for the plaintiffs are looking for Lloyd's to argue that California law is not applicable in this case, thus lessening Lloyd's liability. Lloyd's liability could, in fact, be limited under terms of the Hague amendment to the Warsaw Convention. California law could apply, though, because the plane was produced and sold in the state.

In terms of current money rates, the Hague limit is about \$18,000 per passenger and would apply to anyone whose flight origin and destination points were in countries bound by the agreement.

This includes both Britain and France. However, Turkey is not a party to either Warsaw or Hague treaties, so survivors of any passenger whose tickets showed an Istanbul takeoff could sue for unlimited amounts.

U.S. legal firms have already been retained by Turkish Airlines and by Lloyd's in this case.

John C. Brizendine, president of Douglas Aircraft, at the March 25 Long Beach meeting, reiterated that the DC10, in his mind, is a safe aircraft. "Charges that it falls short of exacting safety standards are utterly untrue," he declared.

Mr. Brizendine said McDonnell-Douglas acted swiftly to inform all airlines operating DC10s to take extra steps to insure proper latching of safety doors, following an American Airlines near-crash in mid-1972 over Windsor, Ont.

There are now 130-odd DC10s in operation.

**TWO CONGRESSIONAL** subcommittees scheduled hearings last week to examine the role of federal agencies in correcting possible hazards on the cargo doors of DC10 jumbo jets.

The aviation subcommittee of the Senate commerce committee opened hearings last Tuesday, with hearings before the investigations subcommittee of the House interstate and foreign commerce committee slated to begin Wednesday.

Top officials of the FAA, the National Transportation Safety Board and the Douglas Aircraft Co., subsidiary of McDonnell-Douglas Corp., were to testify.

Spokesman for the two subcommittees said questions of product liability surrounding the multimillion-dollar plane were not specifically on the agenda for the hearings.

"We're primarily interested in what the federal agencies have done as a result of the 1972 incident with American Airlines," a spokesman for the Senate aviation subcommittee said.

**THE FAA HAS** issued two airworthiness directives concerning the DC10 cargo hatches since the Turkish Airlines crash last month.

The first, issued March 7, required viewing windows to be installed on the cargo doors to allow the cargo door latches to be inspected after the door was closed as well as some other changes.

The most recent directive, issued March 23, requires installation of a device to make it impossible to pressurize the plane unless the locking pins on the cargo door are securely in place. Other changes were included in the directive also, according to an FAA spokesman.

The FAA has also directed its Western region, which directly supervises Douglas in the manufacture of the DC10, to begin an analysis of design changes which may become necessary for the DC10.

## James C. Higgins

James C. Higgins, executive vp and director of Marsh & McLennan Inc., New York, died suddenly Friday, March 22, at the age of 53. Mr. Higgins was a well-known specialist in employe benefits. Most recently, he was senior executive responsible for all technical services. We interviewed Mr. Higgins about a new insurance package for non-nuclear utilities shortly before his death. The interview appears on page 34.

The FAA had previously requested the company to conduct a design study of its own in the wake of the July, 1972, near-tragedy, but the agency says it was told by the company that it didn't have the manpower to conduct the analysis and did not believe it could accept the burden.

"It has been implied in some news reports that a different reply from McDonnell-Douglas might somehow have averted the Paris accident. Such accusations are cruelly irresponsible. It is inconceivable that any other response to the FAA might have had any effect on what happened in the skies over France six days after our response was mailed," Mr. Brizendine declared last week.

**HE STATED**, however, that the DC10 which crashed was found to be apparently lacking a "support plate" safety modification to make the door's latching mechanism impossible to operate without proper latching.

The DC10 involved in the Paris crash "was in our possession at the time the cargo door modifications were adopted," and the Douglas records show that the support plate was installed, Mr. Brizendine said. But this plane, and a second which had been positioned next to it while being produced, were found to be without the plates.

"This is a circumstance for which we do not yet have an explanation," the executive added, noting that the company is presently investigating this discrepancy "vigorously."

He later said it was most improbable that Turkish Airlines had changed or replaced the door. The second plane found to be lacking the cargo door device has since been located and had the plate installed, Mr. Brizendine said.

The now-mandatory airworthiness directives issued last month basically repeated service bulletins that had already been issued by Douglas to operators of the DC10, but while their bulletins were advisory, the FAA directives represented federal orders to make changes or inspections.

FAA inspectors since the March crash have inspected the doors and have examined the inspection procedures normally used to make sure they are functioning properly.

Nine domestic carriers now fly the DC10. They are American, United, National, Continental, Delta, Northwest Orient, Western, Trans International, and Overseas National.

## Sheppard nominated as Denenberg replacement

William J. Sheppard was nominated by Gov. Milton Shapp to replace Herbert S. Denenberg as Pennsylvania's insurance commissioner. Mr. Sheppard will serve as acting insurance commissioner after March 29 until the state Senate acts on his nomination, with the title of deputy insurance commissioner. He is presently deputy commissioner of the division of companies, and has spent 15 years in the insurance department.

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# Film crew deaths . . .

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part of a basic contract with Screen Actors Guild. Although Travelers did not disclose the limits of the guild policy, informed industry sources place them at \$50,000 for the flight accident plus an additional \$45,000 death benefit for each of the 31 film crew members.

Other payments expected to be forthcoming for surviving members of the film crew families include \$5,000 accidental death coverage provided by the motion picture health-and-welfare and pension fund, \$1,000 in state disability, plus death benefits from various locals of the International Alliance of Theatrical Stage Employees.

Death benefits for the 31 film workers may total nearly \$4 million while the five members of the flight crew represent additional losses. Said a spokesman for Travelers, "At this point we're uncertain whether our coverage included the plane crew and we won't really know until we get things sorted out."

Also unknown is the coverage on Jay Fishburn, a representative

of the American Humane Assn., listed as a film crew member, who was along on the three-day trip as a consultant for the filming of a tiger hunt scene.

**A SEARCH** of the wreckage by investigators from the National Transportation Safety Board uncovered the apparently-undamaged film cans containing the three days of shooting that went down with the Sierra Pacific plane. Processors were examining the film to determine whether it has successfully managed to withstand the heat of the flaming air crash. If it survived where 36 lives were lost, the ironic outcome would appreciably affect the amount to be paid by Firemans Fund, the carrier which had the film negative and equipment coverage.

Because of meetings with executives from Travelers and its advertising agency, Jack Kaufman, Wolfer's producer of the "Primal Man" series, narrowly missed taking the doomed flight. A badly shaken Mr. Kaufman told *Business Insurance* that the film on the plane represented the near-completion of the third episode. The fourth and final segment, "The Human Factor," was expected to be finished this summer and ready for showing on TV in September.

The film crew represented a cross section of the film industry—actors, directors, production assistants, crew technicians, cameramen—including director Dennis Azzarella who directed the two previous segments for Travelers "The Killer Instinct" and "The Battle for Dominance" have already been shown on the ABC-TV network, sponsored by The Travelers.

According to Edward E.

Hamby, secretary-entertainment industry in Firemans Los Angeles office, "We haven't the slightest idea at this point what the loss figures will be. We're waiting to see if any of the film can be salvaged, of course, and we don't know exactly how much equipment was involved because all the inventory lists went down with the plane."

**MR. HAMBY** declined to tell the limits of Fireman's negative and equipment coverage for Wolper Productions. He noted, however, that negative insurance will cover the expenses of recasting and re-shooting if the film has been damaged. The equipment cover includes cameras, props and new wardrobes. Film industry experts say total damage claims on the negative and equipment covers could reach as high as \$250,000.

The destroyed costumes include the realistically-crafted ape suits worn by actor Janos Prohaska

and his son Robert, both of whom died in the plane.

Said Mr. Kaufman, "We're faced with the task of training and replacing people with specialized skills who had been working with us for almost a year. Putting it all together again is a monumental problem in logistics. The only link to the production is myself and the production manager who worked for me previously and was fortunate not to be in on this particular shoot."

Another individual who had been invited but declined to fly back to Los Angeles on the ill-fated Convair 440 was George P. Hinckley, vice president of marketing services for Travelers. Mr. Hinckley had been at the mountain location supervising details of the filming. Because of other business, he took an earlier eastern flight that same day and was on his way back to the company's Hartford headquarters before the tragedy occurred.

## \$5 million in dental fees paid 1st year

**BURBANK, CA.**—More than \$5 million in dentist fees were paid during the first year of Lockheed Aircraft's dental plan, according to the company's group insurance manager, Earl Mink.

The plan began last year for about 65,000 employees and their dependents. It is carried by California Dental Service, one of the Delta Dental Plans. About 90% of the dentists in Southern California belong to the organization, which pays them directly for treatment they render to members of the Lockheed plan.

"If the dentist is in the service program, the coverage pays 60% of charges for most work except dentures and bridges, for which it pays 50%," explained Mr. Mink. If the dentist does not belong to the California Dental Service, he is paid according to a schedule based on customary treatment charges.

**MR. MINK NOTED** that the program may cost about 10% less in its second year, partly because the company recently laid off about 5,000 workers. Next year's drop in charges is also expected because many dental plan members had expensive optional treatment done during their first year in the program.

Employees can learn what their share of the cost will be before the treatment is done by filling out a "pre-statement" that is reviewed and authorized by the dental service, Mr. Mink said.

All employees and their dependents are eligible for the dental program after they have worked for Lockheed more than three months.

### New group president

New group president Howard Coughlin, president of the Office and Professional Employees International Union (AFL-CIO) was elected chairman of the executive committee of the American Arbitration Assn. in New York. He is the first labor leader in history to hold the office.

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Waller B. Smith, director of insurance, (second from right) receives the United Air Lines finance division award from United president Edward E. Carlson for outstanding contributions to his company and department. Others pictured from left: Rex E. Bruno, senior vp of finance, and Charles F. McErlean, executive vp and chief operating officer

## Condominium D&O covers emerge: Broker

PASADENA, CA.—Directors and officers liability insurance is beginning to extend to the harried directors and officers of California condominiums, a general agent and surplus lines broker here told this magazine.

Dave Anderson, a principle of Anderson & Murison here, disclosed that his firm is currently in negotiation with two or three condominiums for D&O coverage. He said his policies offer limits of up to one million dollars with a premium of approximately \$3,000 a year for larger structures with up to 1,000 units. For smaller size condominiums, premiums run between \$100 and \$1,275 a year. Deductibles average a low \$500, he said, mostly because condominiums

do not feel able to shoulder a bigger financial burden.

Lloyd's reinsures the new policies, said Mr. Anderson. He claimed that Lloyd's "has found D&O to be very profitable.

**INDEED, THE WYATT** study (*Business Insurance*, Oct. 23, 1973) discovered a low loss ratio of only 22%. Lloyd's, however, has reported its D&O loss ratio to be about 35%, Mr. Anderson stated.

As for the reasons why condominium officers and directors should sign up for D&O liability, Mr. Anderson said he could list 23. These range from such obvious slips as "misstatement of financial condition," to a more subtle "misuse of insider infor-

mation" to a vague "failure to seize an opportunity."

Writing coverage for bungling condominium directors, it should be noted, is no novelty for Anderson & Murison, a firm which specializes in insuring uncommon enterprises in California for smaller insurance carriers wanting this business. On-the-road trade show salesmen, recreational vehicles, hamburger stands and beauty parlors are some of the out-of-the-ordinary enterprises insured by Anderson & Murison, which has branch offices in Fresno and San Jose.

Aside from D&O, Mr. Anderson believes that the whole field of liability coverage is slated for explosive growth in the decade. Attorneys who are fearful of seeing their living standards eroded by stricter no-fault auto insurance laws are now the chief catalyst behind the expansion in liability coverage, he believes, noting that he expects the larger, more populous states to adopt no-fault auto liability laws with realistic limits before the end of the decade.

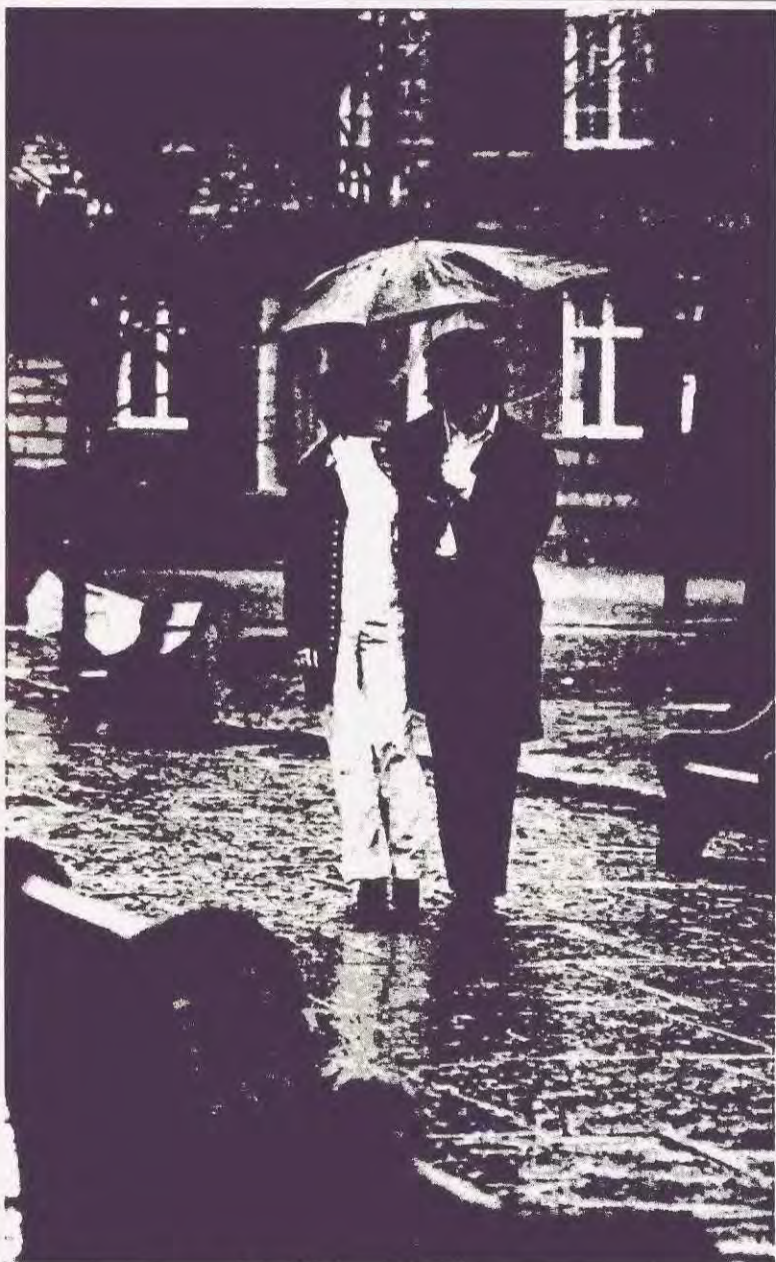
Liquor liability in California was recently liberalized by a court decision that held a bar liable for an assault committed by one of its reeling patrons, he illustrated.

**"IN LIKE VEIN,** a corporation was recently held liable for a Christmas party when one of its celebrants attacked another person," noted Mr. Anderson.

Like the attorneys, Anderson & Murison intends to turn such court decisions into a rush of new business for itself and the underwriters it represents. They include American Home Group, Jefferson Insurance Co., Progressive Casualty Insurance Co. and Bellefonte Insurance Co.

A firm which expects to do \$9 million in gross premiums in 1974—its actual income is figured as a percentage, usually 10%, of what it receives from the carrier and what it pays to the retail agent—Anderson & Murison thinks D&O coverage will prompt better-qualified people to assume the responsibilities of condominium officers or directors. "D&O in these circumstances will act as a tremendous litigation deterrent," contended Mr. Anderson.

A recent Los Angeles Times survey of residential building intentions of Southern California builders may have boosted his optimism. Although condominium sales hit a sharp snag late in 1973, the survey found that the ten largest builders are planning to raise at least 2,700 condominiums in the seven-county southern California area in 1974.



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## Hit Reagan plan for bids

SAN FRANCISCO—Governor Ronald Reagan's plan to award the job of administering California's Medi-Cal system on a bid basis based on cost and merit are under attack here by labor union offices charging that "the bid procedures are wide open to a public rip-off."

John F. Crowley, secretary of the San Francisco Labor Council, said unions throughout the state will demand legislative hearings on the Reagan proposal.

"The bid plan," charged Jerry McColl, Office and Professional Employees Union Local 3, "appears to be an open attempt to put a combine which includes Occidental Life Insurance Co. and IBM into the front row in administration of national health insurance if and when Congress adopts such a plan."

# One-and-a-half cheers for OSHA.

If that sounds like a reserved hurrah, you're right. And if you run a business, you've probably already discovered the Occupational Safety and Health Act is no substitute for conscientious "do-it-yourself" safety.

OSHA compliance will get you someplace—but not far enough. There's a lot more to occupational safety than providing a safe work environment. Other things that deserve attention—and correction—are inadequate safety training, supervisory failure, lack of management control and similar factors that are the real reasons for a high percentage of job-related accidents.

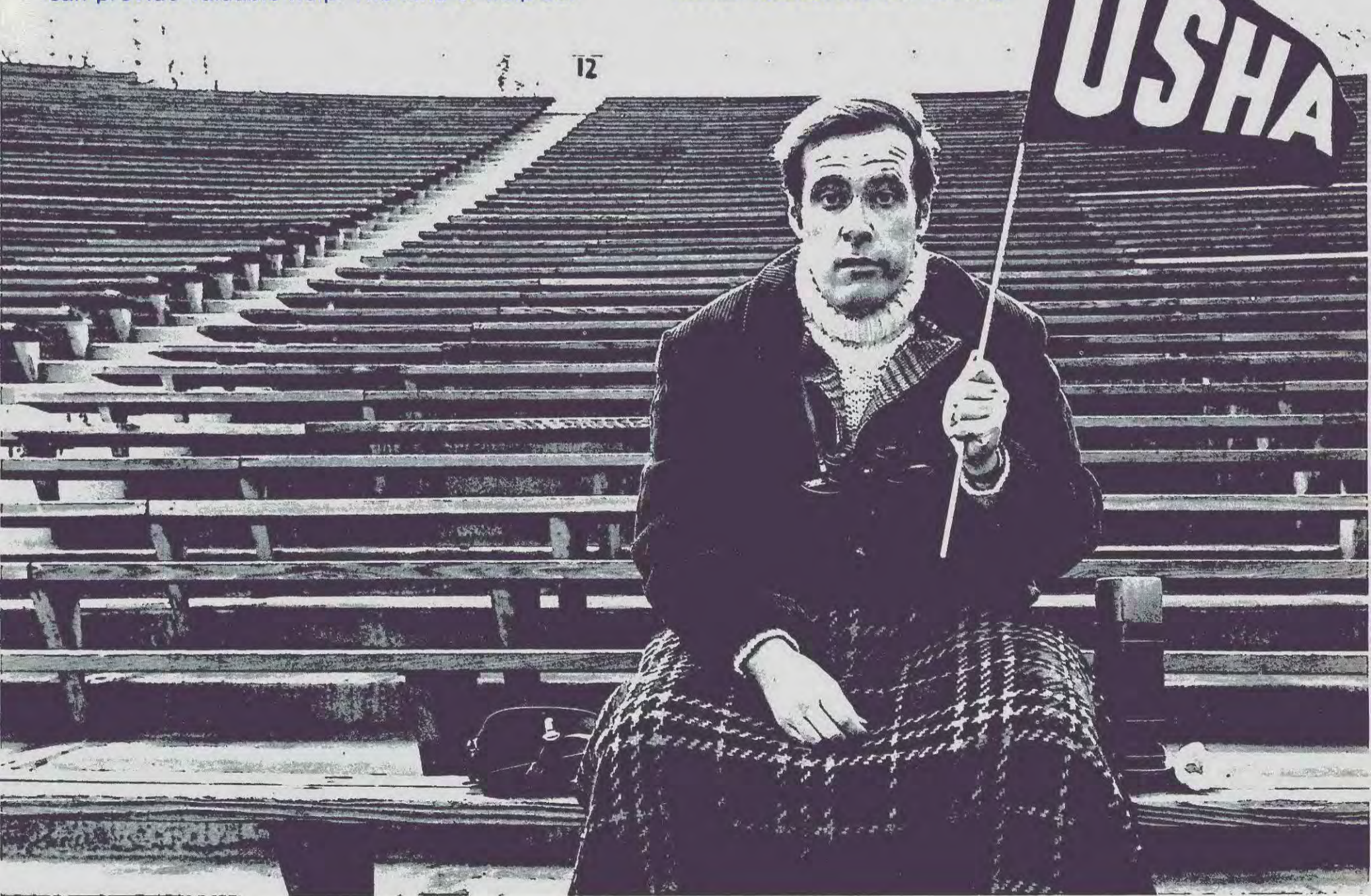
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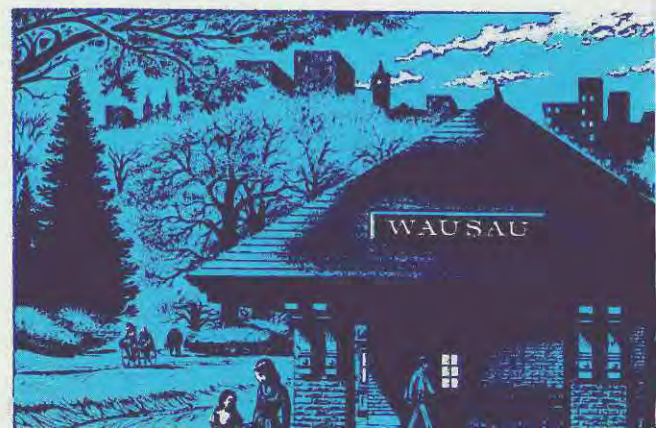
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# Broker specializing in foreign political risk covers

By MARY ANN CALLAHAN

PITTSBURGH—U.S. multinational corporations interested in securing political risk insurance for their investments overseas can find a willing mentor here in American Investment Guaranty Corp., so far the only American broker to specialize exclusively in that market.

Chandler G. Ketchum, AIGC president, indicated last month that his firm would particularly like to negotiate for American clients the new expropriation insurance written by Lloyd's of London through a London-based syndicate broker, Investment Insurance International (Managers) Ltd. (*Business Insurance*, March 4). He said AIGC has been working in the specialty since 1972.

At present, Lloyd's offers the only expropriation insurance program available to U.S. multinationals beyond the federal Overseas Private Investment Corp., the direct-writing national insurance scheme for multinational investors. OPIC is both less expensive and less extensive than Lloyd's, insuring only about 3% of the potential market. In an age of growing nationalism, foreign investments represent an increasingly important exposure, Mr. Ketchum noted.

**LIKE THE LONDON** broker, Mr. Ketchum stressed that while the Lloyd's insurance is similar to OPIC, it is designed as a supplementary form and not as competition. OPIC's \$400 million program is backed by a Lloyd's reinsurance contract until 1976.

The newly-expanded Lloyd's expropriation coverage, which grew out of the insurer's centuries-old marine confiscation program, is based on rates which vary from two-tenths of 1% to

10% of value and is expected to be generally more expensive than OPIC's standard six-tenths of 1% rate.

OPIC insures on a long term basis only new U.S.-owned investments in a limited number of underdeveloped foreign locations, in contrast to Lloyd's which offers short or long term and first or excess layer coverage for virtually any commercial risk (except oil production risks) in any country except Rhodesia, Mr. Ketchum said.

**LLOYD'S COVERED** about \$200 million in multinational assets last year, but Mr. Ketchum said AIGC expects to place more than that in American-owned investment risks alone in 1974. He said that the broad Lloyd's program covers some OPIC exclusions

such as creeping expropriation, equity investments, and bank loan contingencies.

Although he declined to mention names, Mr. Ketchum told *Business Insurance* he has already negotiated the Lloyd's cover for several U.S. clients, as well as directed eligible clients to obtain OPIC coverage, at least as a first layer.

In several cases, where an American company is involved in a joint venture with a foreign-based corporation, AIGC has helped arrange insurance through the foreign country's national multinational insurance scheme, he said.

Some 17 countries outside the U.S. have national schemes parallel to OPIC, but unlike OPIC some of them allow coverage of a limited number of foreign-owned assets.

In addition, Mr. Ketchum said AIGC would be willing, on a fee basis, to research all aspects of possible expropriation exposures and coverages for any interested multinational, although the main AIGC effort is to arrange expropriation coverages on a commission basis.

**OSTENSIBLY ANY** U.S. broker can approach the London syndicate broker. But Mr. Ketchum said he expects his firm's "working expertise in this unique, often complicated specialty" to be its major attraction for corporate insurance buyers.

He said the Lloyd's coverage seems particularly suited to extractive, manufacturing, electronics, chemical and engineering companies' overseas risks.

His discussions with multina-

tional corporate clients so far have shown a recurrent interest in protecting at least the book value of foreign assets as a hedge against the further expense of a directors and officers liability suit from angry stockholders in the event of expropriation losses.

"The executives often want to at least insure the printed dollar value from the annual report, which of course includes a depreciation percentage," he said.

Mr. Ketchum said he foresees a growing detachment on the part of the federal government in negotiating expropriation compensation, evidenced in Henry Kissinger's recent assurances to Mexican President Echeverria of the autonomy of foreign governments in dealing with U.S. investors.

Continued on page 7

## UAW gains won't be the same as wage

DETROIT—The United Auto Workers said it obtained federal approval for the optional leave and pre-retirement leave provisions of contracts signed with International Harvester, Caterpillar Tractor and John Deere last fall.

UAW vp Pat Greathouse told *Business Insurance* that these benefits will be treated as taxable income for employees, but as a result of this new Internal Revenue Service ruling, will not be counted as wages for purposes of computing overtime.

**MR. GREATHOUSE**, director of the union's agricultural implement department, said the ruling from IRS and the department of Labor indicates approval will also be given to similar contract provisions for another 15,000 UAW members at Massey-Ferguson and Mack Truck companies.

This initial approval covers contract benefits for about 100,000 workers at the three farm equipment makers.

The pre-retirement leave provision permits workers with 30 or more years of credited service a paid leave of absence each calendar year of the contract from one to four weeks, depending on age.

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## Joplin death claim settled out-of-court

NEW YORK—A dispute over underwriter payment of a \$200,000 key-person accidental death claim to the manager of late rock singer Janis Joplin was settled out of court here last month following a three week trial.

Details of the settlement were officially withheld, but it was reported that Albert B. Grossman, head of Grossman Management Corp. and the beneficiary of the policy, accepted slightly more than \$100,000 from Associated Indemnity Corp., San Francisco.

**ASSOCIATED INDEMNITY**, one of the Firemen's Fund American Insurance Cos., had resisted paying the claim on the grounds that, in its opinion, Ms. Joplin's death from an overdose of heroin had been a suicide rather than an accidental death.

The insurer also contended that it had never been given an accurate medical history of the now almost legendary singer and that she had died as a result of an illicit act, which would void the policy.

"The suicide exclusion is standard in any accidental death policy," an Associated spokesman told *Business Insurance*. The exclusion, he added, is employed in many policies besides key-person accidental death arrangements.

"This kind of thing is not unusual at all," he said, referring to coverage of this type being placed on entertainers or other people of importance. "The beneficiary companies are protecting an important, insurable interest with this type of coverage."

**MS. JOPLIN** was found dead in a hotel room in Los Angeles in October, 1970. At that time, the Los Angeles medical examiner's office ruled that she had died of an accidental overdose of heroin.

The insurer, in contesting this opinion, produced witnesses, including one of Ms. Joplin's former physicians, who attempted to establish that the singer's excessive use of drugs and alcohol was leading her on a self-destructive course.

Mr. Grossman sued the insurance company for \$47,500 in accumulated interest and \$50,000 in legal fees in addition to the amount of the policy. ■

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## Twelve US carriers reinsuring Lloyd's plan

NEW YORK—Twelve U.S. insurance companies have joined a pool to reinsure Lloyd's of London's recently-expanded program of expropriation insurance for overseas investors, a Lloyd's spokesman told *Business Insurance*.

The companies include Chubb & Son Inc., Kemper Reinsurance Co., Allstate Insurance Co., Fireman's Fund American Insurance Co., Highlands Insurance Co., Bellefonte Insurance Co., Calvert Fire Insurance Co., Service Fire Insurance Co., Nationwide Insurance Co., Aetna Insurance Co., Prudential Reinsurance Co., and New England Reinsurance Co.

The Lloyd's spokesman said American participation is "quite minimal," and a Nationwide Insurance Co. spokesman termed it,

"strictly a reinsurance situation." Fireman's Fund has signed up for "up to a \$500,000 maximum loss in each country," according to a source there, who added that the Lloyd's syndicate hopes to finalize aggregate liability on a worldwide basis at about \$30 million per country.

**THE FIREMAN'S** Fund source noted the American participation in the London syndicate has been "fairly aggressively marketed in the last six weeks by Guy Carpenter & Co., reinsurance brokers here."

Investment Insurance International (Managers) Ltd., the Lloyd's broker for expropriation, reportedly unsuccessfully tried to interest American insurance com-

panies in participating in a similar pool about a year ago.

Lloyd's expropriation insurance program is the only one available outside government schemes, such as the U.S. government's Overseas Private Investment Corp. Lloyd's spokesmen have often stressed that their program is designed as a supplement to the national schemes and not as a competitor.

At a time when OPIC is trying to interest private insurance companies in taking over part of its program of political risk coverages for U.S.-owned multinational corporations, the American insurers' participation in Lloyd's syndicate will have "little or no effect on future possible participation in OPIC," several sources assured *Business Insurance*.

"In fact, that was one of the first questions we asked Lloyd's," one spokesman said, "we wanted to be sure we would not be participating in a syndicate that was competition to OPIC." ■



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# Goodyear embarks on massive health screen for chemical-exposed workers

NIAGARA FALLS, N.Y.—Spurred by mounting concern over effects of vinyl chloride on the human body, a union, a corporation and a medical research team combined to stage a massive health screening program for workers in the Goodyear Tire & Rubber Co. plant here.

Since the problem of cancer among vinyl chloride workers was first brought to light at a B.F. Goodrich plant in Louisville, (*Business Insurance*, March 4, 1974) unions and companies have become increasingly active in their efforts to discover if their workers have developed malignancies. This test was the most intensive mass medical examination to result from the vinyl chlo-

ride cancer scare.

The Goodyear plant here was chosen, according to Frank Micale, president of Local 8-277 of the Oil, Chemical & Atomic Workers International Union, because it is the oldest plant in the country which deals with the chemical substance.

"The doctors say the cancer usually takes a long time to develop so a test like this in a new plant wouldn't mean as much as it does here," Mr. Micale commented.

**THE TESTS**, which consumed three and one-half days, were conducted in the union's meeting hall here. During the testing, 401 employees, both union and management as well as retirees, were

given thorough physical examinations by a group of physicians and technicians from Mt. Sinai Medical Center in New York. The medical personnel were members of Dr. Irving Selikoff's environ-

**Tough safety standards for exposure to vinyl chloride could force plant closings. See story, page 10.**

mental medicine research team.

Dr. Clifford Johnson, Goodyear's director of occupational health services, told this magazine that Goodyear is picking up part of the expense for the testing by paying for chest, hand and foot x-rays for

currently employed workers. Most of the remaining costs will be absorbed by grants to Dr. Selikoff from the National Institute for Environmental Health Sciences.

Dr. Johnson said he could not put an exact dollar figure on the cost of tests but added, "If all the different things that were done had been performed by a private physician, it would have been expensive."

**THE TESTS**, which ranged from a series of different blood tests to urine tests to pulmonary function tests in addition to a complete physical examination performed by a physician and a medical history, went beyond the routine, according to Dr. Johnson, because "there is a lack of information in these areas."

He pointed out that the research team also conducted an experimental test "which was designed to determine malignancies in people—no particular malignan-

cy, but malignancies in general."

X-rays were taken of the employees' hands and feet, Dr. Johnson explained, because a "peculiar" condition was discovered among vinyl chloride workers a few years ago—the calcium in their fingertips and toes sometimes breaks down.

Goodyear and the medical research team are also going over death records and autopsy reports of workers who died over the past few years to see if, perhaps, vinyl chloride effects might have been overlooked at the time of death.

**THE RESULTS OF** the tests, which were run by nine doctors and five technicians using a great amount of sophisticated medical equipment as well as thousands of slides and test tubes, will not be known for some time.

"They examined 400 people," Dr. Johnson said. "Just that sheer volume dictates a good deal of time."

Explaining why the union started the ball rolling for tests to be performed, Mr. Micale said the OCAW, naturally concerned about vinyl chloride, had informed him that members of his local worked at the oldest vinyl chloride plant in the nation and that Dr. Selikoff had been contacted about the situation.

"We then sent three of our members to be examined by the research team," Mr. Micale said. "One man had a liver problem, but not cancer. We sent one man who is getting workmen's compensation because of the condition in his fingers and we sent the man who has worked here for the longest time. After they were examined, it was decided that the test would be done."

"**AFTER THE COMPANY** found out what we were doing," he continued, "they offered to cooperate with us. They paid for the x-rays on current workers and the union will pick up the tab for x-rays on the exited people who were examined."

On the evening before the tests began, he said, the union held a membership meeting, "which was well attended because people are concerned about this," at which the members were addressed by Dr. Selikoff, Dr. Johnson and others about what would take place.

Even barring the results of the examinations, Mr. Micale felt that Goodyear would have to institute new safety procedures. "The ventilation in the plant needs improving and the men need complete body protection when they clean the VC vessels."

Dr. Johnson pointed out that Goodyear only has one other vinyl chloride plant—that in Louisiana—and said that workers there have also been screened. That plant, however, is much newer than the operation here.

**MR. MICALE SAID** he was relieved that the tests had been done and that the government was doing something, referring to the fact that Dr. Marcus Key, director of the National Institute for Occupational Safety & Health (NIOSH), has recommended to the Department of Labor that no workers be allowed in the future to be exposed to any measurable level of vinyl chloride.

Following the tests, Mr. Micale, while awaiting the results, said, "I can only hope the tests were all for naught. Otherwise, it's almost too scary to think about."

Dr. Johnson also explained that Goodyear was certainly not the only company with vinyl chloride operations which was screening its employees.

"There are many other companies involved in this," he stressed. "They have to be." ■

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## Vinyl chloride cancer scare spurs action

# Federal safety rules could force plant closings, plastic-makers fear

By KATHRYN BLAIN

LOUISVILLE, KY.—Federal safety proposals to eliminate workers' exposure to vinyl chloride could close down some plants in the plastics industry, according to an official with the Kentucky Occupational Health and Safety Administration (OSHA).

Dr. J. Bradford Block, medical consultant with the state OSHA predicted closing of the B. F. Goodrich plant here and similar plants elsewhere, if recommendations by the National Institute of Occupational Health and Safety

(NIOSH) are adopted by federal OSHA officials.

OSHA officials are considering proposals to lower the federal standard of 500 parts of vinyl chloride per million parts of air, because of the deaths of seven workers in the vinyl chloride industry from a rare liver cancer.

A RECENT NIOSH report to the federal OSHA said it is unable to "describe a safe exposure level" to vinyl chloride. NIOSH therefore recommended that an employee exposed to any measure of vinyl chloride should be required to wear an

air-supplied respirator.

Dr. Block said protective clothing is not a substitute for safe working conditions by OSHA standards. A lack of technology, even in the most modern plants, would make it impossible for the industry to meet zero exposure levels, he contended.

Dr. Block said the engineering problems in meeting that standard were described to him by industry representatives. A Goodrich spokesman at the Akron, Oh., headquarters declined to comment, however, saying he had not read the NIOSH report and has no opin-

ion on it.

The NIOSH report followed several hearings in recent months among industry, labor and safety officials about a new occupational disease, angiosarcoma—a rare type of liver cancer discovered among workers exposed to vinyl chloride for 12 to 17 years.

IN JANUARY, B.F. Goodrich Co. announced that four workers at its Louisville plant died from the liver cancer between 1968 and 1973. Since then, a fifth death, in 1964, has been discovered in a check of Goodrich medical records. (*Business Insurance*, Mar. 4, 1974.)

In addition, two chemical workers at the Louisville plant have been hospitalized with the rare disease, discovered during medical tests provided by the company.

Goodrich has paid workmen's compensation for the cases without contest and has offered free

medical testing to anyone who every worked at the plant.

The total deaths linked to vinyl chloride rose to seven when Union Carbide Corp. reported a case at its S. Charleston, W. Va., plant and a British company announced a similar finding.

The deaths at the Louisville plant led state OSHA officials to lower from 500 to 50 the vinyl chloride parts allowed per million parts of air and to add the chemical to its list of carcinogens. Most major companies, including Goodrich, already followed the 50 parts limit.

DR. BLOCK SAID that to lower the standard to zero parts per million, as advocated by NIOSH and national labor representatives, would "close the Goodrich plant, because there's no way this plant or any plant could meet these standards."

Because the vinyl chloride is stored under pressure, there's a tendency for leaks to occur even in the most sophisticated plants, he said. And to remove all traces of vinyl chloride from the work environment would require technology and funds beyond the capabilities of the companies.

Dr. Block questioned the need for a zero level exposure when none of the studies conducted on vinyl chloride thus far have shown any damage, cellular or liver, to animals or humans at exposures of less than 100 parts per million.

"I'd be the first one to say let's drop it to zero, if we had evidence that 50 parts per million or 25 parts per million caused problems, but in fact we have evidence to the contrary," Dr. Block said.

A ZERO EXPOSURE level would not only affect vinyl chloride manufacturers, who convert the chemical to polyvinyl chloride, which is used in such things as plastic pipe and food containers, he said.

Firms using the polyvinyl chloride in making end products would also be required to provide air respirators to persons handling the material, since measurable parts of vinyl chloride are present even in the final product, Dr. Block said.

"From a medical point of view, there is still some debate about the history of this disease," Dr. Block said.

One hypothesis links the liver cancer to low concentrations of vinyl chloride vapors for long periods of time, he said, but the majority of evidence favors a high level of exposure once or twice, perhaps at 1,000 parts per million, with a long latency period.

Because of the high number of deaths from the rare cancer at the Louisville plant, Dr. Block said "I'm suspicious there's a link to some peculiar process used many years ago in the cleaning process," resulting in exposures to high concentrations.

PREVIOUSLY, workers became exposed to higher concentrations of vinyl chloride fumes when they cleaned large tanks used to convert it to polyvinyl chloride.

At the Goodrich plant, workers now wear protective safety clothing and use air respirators when cleaning the tanks.

Besides other housecleaning procedures, the company has also started an elaborate medical testing program for its employees in cooperation with the state OSHA.

Last October through December, the company tested the 271 workers in its vinyl chloride division; then retested 55 who showed liver abnormalities and gave liver scans to 15 of these, including one now hospitalized from the rare disease. The 15 were then transferred

Continued on page 11

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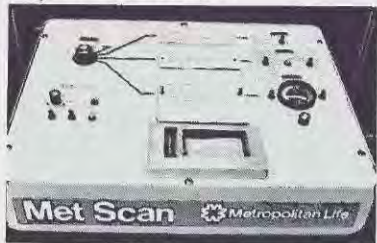
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## Tabletop 'Met Scan' records medical data

NEW YORK—Metropolitan Life Insurance Co. introduced last month a new time-saving, cost-cutting device with an ability to acquire and record health data required for most personal life insurance applications.



Although the "Met Scan", designed by General Electric for Metropolitan, was developed for personal life lines, there is an application for participants of group life plans.

Dr. John Rafter, medical director at Metropolitan explained that "Ordinarily, the employe who obtains life insurance through his company is not required to receive a medical examination. However, if he refuses coverage and six months later decides to pick it up, he must be examined. This is where the Met Scan comes in."

A tabletop unit, the Met Scan records the applicant's

height, weight, birth, blood pressure, and in some cases, an electrocardiogram. This data is recorded in code on a tape and then forwarded along with a urine specimen and brief medical history, to the underwriting department.

**DR. ENTMACHER** vp and chief medical director at Metropolitan noted that though Met Scan results are now mailed to the underwriting department, the unit is able to transmit information via telephone lines.

According to a General Electric spokesman, there has been a growing interest in the device by other large life insurance firms. ■



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## Work comp rate increase

SAN FRANCISCO—An employer rate increase of 6.2% for workmen's compensation insurance and employers liability insurance, effective April 1, has been approved by Gleeson L. Payne, California insurance commissioner.

The rate increase will become effective that date for new and renewal policies and to the remaining term of all policies outstanding as of that date.

The amendments to California's Workmen's Compensation Law, with benefit changes also effective April 1 for all injuries sustained on and after that date, according to deputy insurance commissioner Lawrence C. Baker Jr., "resulted in a substantial increase of 6.8% in the overall cost of benefits." ■

## Chloride . . .

Continued from page 10

from the vinyl chloride division.

Dr. Block said "all of the initial tests have been completed and we know of no new cases."

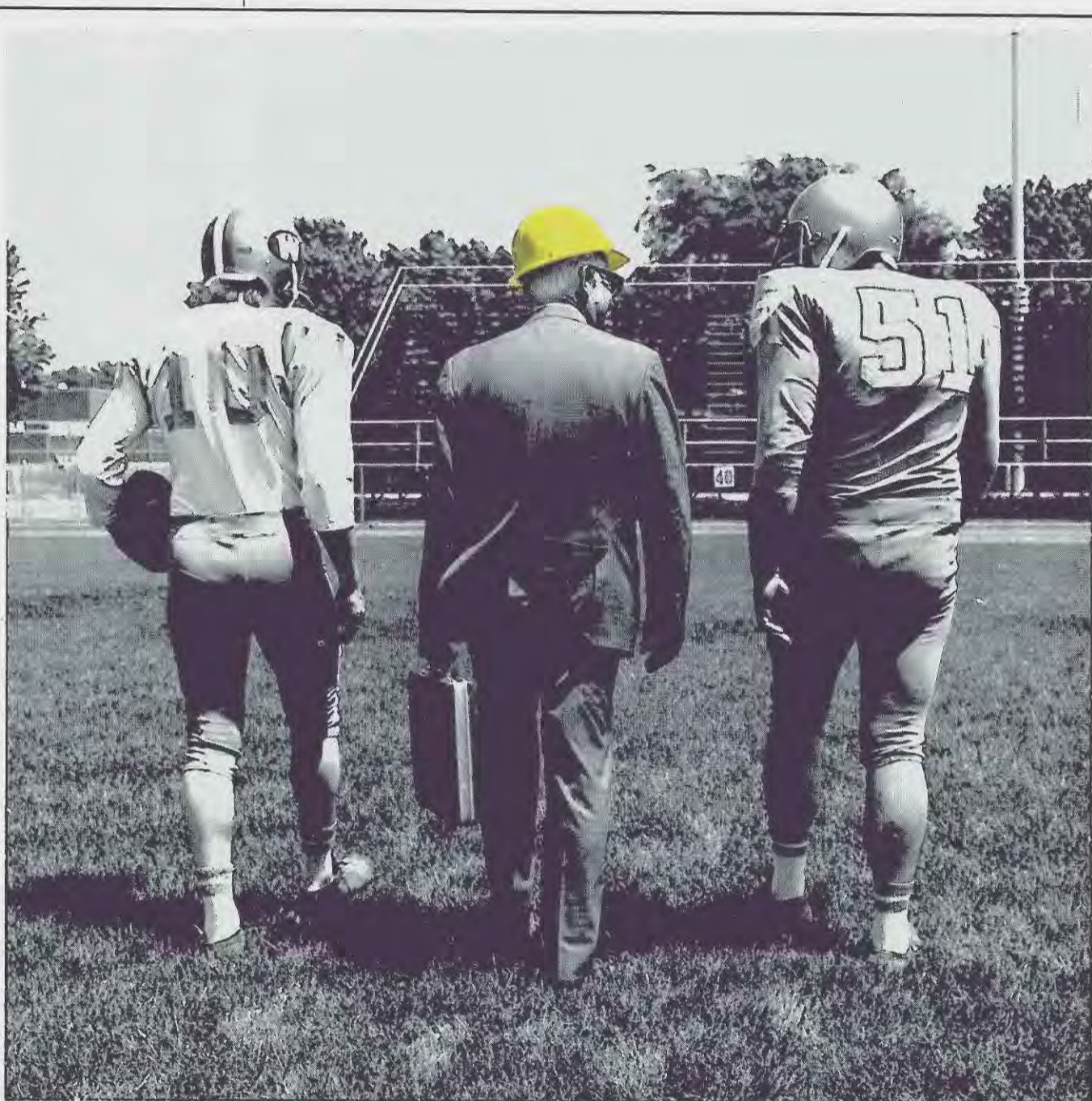
But frequent testing for liver abnormalities will become a routine part of the company's medical program for employes.

In addition, any of the 1,200 employes at the Louisville plant who wish to undergo the tests may do so at company expense. The company is offering the same benefit to former employes.

A search of medical records for employes in the vinyl chloride division has been expanded to a massive search of medical records for anyone who ever worked at the plant since it was built in the 1940s.

As a supplement to its testing program, Goodrich is funding a \$300,000 one-year medical research program at the University of Louisville's health sciences and cancer centers.

Dr. Block said the UL project will be an attempt to develop screening procedures to detect angiosarcoma at an earlier stage, since current tests reveal abnormalities only after successful treatment is not possible. ■



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# Murder victim Null's partners are indicted for fraud in key man policy

ST. LOUIS—Two business partners of a heavily-insured inventor who was mysteriously shot to death in November, 1972, have been arrested on charges of mail fraud and conspiracy to murder.

James H. Calvert, 74, and his son Ronald F. Calvert, 39, were taken into custody last week after a federal grand jury handed up a 12-count indictment charging them in connection with the killing of inventor Victor G. Null, 34. (*Business Insurance*, Dec. 4, 1972).

James Calvert was one of the beneficiaries of more than \$2.3 million in insurance policies taken out on Mr. Null's life. A \$2 million policy carried by Lloyd's of London was purchased only two

months before the inventor was found lying on the floor of his office in a pool of blood, with four bullets in the back of his head.

**"THEY WERE ARRESTED** on charges of mail fraud because they allegedly knew the man wasn't going to live very long when the insurance was applied for," said one official. He added that there is no indication that other former associates of Mr. Null were involved in the murder conspiracy and insurance fraud.

A thorough investigation leading to the Calverts' arrest was prompted in part by Ronald Calvert's involvements in earlier incidents of violence where he was a beneficiary of the victims' life insurance, the official noted.

The grand jury indictment reportedly charged that Ronald Calvert offered to pay \$5,000 to an unnamed person for arranging the murder of Mr. Null in his East St. Louis, Ill. office.

The inventor owned half-interest in the HCS Turbine Co., in which James Calvert had a 43% interest. John G. Walsh, Carroll C. Shelton, Robert F. McCoole and Carl P. Gaetner were also partners in the company, registered with the state of Missouri in August, 1972.

Bowes & Co. brokers wrote the \$2 million Lloyd's life insurance policy with a \$5,000 annual premium. Each partner in HCS Turbine stood to collect a percentage of the settlement equal to his interest in the company. Mrs. Null was supposed to receive 50% of the claim.

A spokesman for the brokerage told *Business Insurance* "absolutely no comment will come out of this office whatsoever."

**JOHN O'MARA**, Lloyd's legal counsel in Chicago, said a six-count civil complaint was filed by Lloyd's in February, 1973 against the HCS Turbine partners in East St. Louis, Ill. federal district court. "We've alleged misrepresentation," he explained.

Another \$350,000 insurance policy was taken out on Mr. Null's life by James Calvert, naming him as sole beneficiary. It was carried by New England Life Insurance Co. of Boston. In 1971 Mr. Calvert reportedly tried to obtain a \$500,000 policy through the Prudential Insurance Co., but it refused to accept the key man coverage.

Ronald Calvert's insurance activities go back to 1967. He owned his own finance company, insuring and financing customers who

bought automobiles at his used car lot in Brentwood, Mo. called the OK Sales Co. The FBI arrested Mr. Calvert's brother-in-law, Henry C. Midden, for operating a stolen car ring out of the OK lot.

In 1967, Messrs. Midden and Calvert bought \$750,000 worth of life insurance on an associate in a trash receptacle business named Jack Edwards. Occidental Life Insurance Co. of California reportedly insured him for \$300,000 and Denver's Capitol Life Insurance Co. carried another two life

policies totaling \$450,000.

Mr. Edwards was later shot-gunned to death by an employee of Mr. Calvert in the OK lot. Murder charges were finally dropped when the court could not establish that the incident was premeditated. Mr. Edwards' wife collected \$50,000 in the insurance settlement, with \$292,000 going to Mr. Calvert and Mr. Midden. While other money was used to pay legal fees, about \$100,000 of the total settlement is still unaccounted for.

## Nat'l. no-fault debate follows close Sen. vote

WASHINGTON—The House commerce and finance subcommittee this week opens the first of its two-week hearings on the National No-Fault Motor Vehicle Insurance Act (H.R. 10), sponsored by Rep. John E. Moss (D-Cal.).

The Senate judiciary committee March 21 approved by a narrow eight to seven vote, with no abstention, the Senate's version of national no-fault, (S.B. 354), sponsored by Sen. Philip A. Hart (D-Mi.) and Sen. Warren G. Magnuson (D-Wa.).

Floor debate on the Senate bill could be held later this month, according to Senate sources.

The house subcommittee hearings on the bill are scheduled for April 1-5 and April 22-27.

The Moss bill in the House "is a straight federal bill that would take effect in all the states but would not preempt state insurance regulations," according to a subcommittee aide.

**THAT DIFFERS FROM** the Senate bill, he says, which sets standards for state agencies to meet in setting up their own no-fault programs.

As passed by the Senate judiciary committee, the Senate bill still contains language which allows states to provide for subrogation of claims as long as such reimbursement is not based on fault.

That provision has stirred the ire of the insurance and trucking industries which stand to pay higher claims and premiums.

Subrogation in action would mean that accident claims would be settled not on a straight 50-50 split, for example, between a car and a truck involved in an accident, but rather on the propensity of a vehicle to cause damage because of its weight or design.

"We oppose the concept of subrogation on the basis of weight," a spokesman for the American Trucking Assn. told *Business Insurance*, "because regardless of fault, we are 100% losers 100% of the time."

"If a Volkswagen ran into a says, 'the insurance company of the truck has to 'loss shift' to the Volkswagen's insurer, which means we pay for more than just our damage."

**KEMPER INSURANCE COS.** has already gone on record as "firmly opposed" to the Senate provisions allowing states to use the subrogation clause.

"The legislation does not specifically treat commercial vehicles any differently than it does private passenger cars, but it does leave the door wide open for the states to enact their own rules on this point," a Kemper official says.

The Senate bill would require each state to enact no-fault laws incorporating minimum federal no-fault standards. It provides for payment of all medical and \$15,000 in wage losses and "rehabilitation expenses, at least

sonable" levels of replacement services losses and survivor's loss.

The victim's right to sue in cases involving serious injury would be limited under the bill and deductibles could not exceed \$100. Self-insurance under both the Senate and House bills is permitted.

## Kidnap...

*Continued from page 1*

Decatur, Ga. and a fourth in Nashville, Tn. The store managers were forced to take money from their stores or to let thieves enter them and take merchandise in order to meet ransom demands.

The company has offered a \$10,000 reward for information on the kidnapers and has tightened security at its stores. The security step-up includes wiring store entrances and safes to police stations; more frequent cash pickups and the removal of the managers' pictures from the stores.

With the rash of kidnappings and the fact that Kresge is headquartered here giving the campaign a good bit more emphasis, a Lloyd's of London broker has placed kidnap/ransom insurance advertisements in newspapers circulated in two posh suburbs near here because many top corporate executives live in those areas.

William Shilson, president of American Underwriters Corp., said he has been inundated by inquiries even before his company's ads appeared.

**"THE STORY** got out that we were going to do this and, between the press and people wondering about the coverage, our phones haven't stopped ringing," he said. "Agents and brokers from all over the country have been calling."

Mr. Shilson also reported a number of inquiries from corporate board chairmen, though he did not name the persons or companies involved.

He said that, in his experience, limits on kidnap policies of up to \$2.5 million were not unusual and that deductibles were "negotiable."

"I personally don't think retentions are a good idea with these policies," he said. "The insured might be tempted to do a little negotiating with the kidnapers on his own with the retention in there instead of calling the F.B.I. immediately as the policy stipulates."

One thing that he felt had never been highlighted about kidnap ransom coverage is the fact that "this is strictly a reimbursement coverage. There is no new wealth created. After the ransom is paid, we reimburse but where the people who paid the ransom got the money is not our problem. If they had to borrow the money, they still have to pay it back."

Mr. Shilson noted that the coverage is the same as that available to banks for years. The coverage, he said, does not have published rates.

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# Labor union officers get cover similar to D&O

By PATRICK THOMAS

NEW YORK—Labor union officers embroiled in lawsuits alleging official misconduct can also hit rocky financial shoals, says an insurance man who thinks he has found a way to take some of the sting out of such problems.

"Under the Labor-Management Reporting & Disclosure Act of 1959 (The Landrum-Griffin Act), a union official who is sued on a charge of violating his fiduciary responsibility to the union cannot use union funds or union counsel in his defense," explained Marshall Rattner, president of Professional Indemnity Agency, a subsidiary of Tolley International Corp.

"He has to go out and find his own defense attorney," he con-

tinued, "and legal fees can be very expensive."

Tolley, Mr. Rattner pointed out, has come up with a new package insurance policy designed to give labor union officials the kind of legal expense protection available to corporate officers and directors.

"THE COVERAGE is based on the same reasoning as directors and officers liability insurance, only it has been more handicapped because of the Landrum-Griffin Act," Mr. Rattner noted.

Called union officers' shield, the insurance coverage is underwritten by Lloyd's of London and is marketed exclusively by Tolley International, with home offices in Indianapolis.

The coverage, which carries no deductible provision, has a limit

of \$50,000 per legal action in defense expenses for each named individual on the policy; \$100,000 if more than one union officer is involved in the suit; and an annual aggregate limit of \$250,000.

The second part of the package, and Mr. Rattner said the policies would not be sold separately, provides coverage in the same amount for the union itself if it must reimburse any of its officers who are found innocent in a legal action.

"A while ago one company said it would provide coverage like this, but only if the union officer was found innocent in the case," Mr. Rattner said. "But that wasn't necessary because the union reimburses the man if he is innocent—and in 90% of these cases, the union officer wins."

The Tolley policy provides de-

fense expense coverage in both civil and criminal actions relating to violations of fiduciary responsibility but does not provide indemnity for any fines, settlements or other penalties which may result from the suit.

THE LAW SAYS union officers can be sued by other officers of the union, members of the union or the government. The coverage extends to any of these actions, Mr. Rattner said.

"What we are doing with the coverage," he commented, "is making it so the union officer does not have to compromise himself while defending himself. For example, he is free to choose any attorney he wants."

Costs of the coverage, Mr. Rattner said would vary depending on the experience of the union's

officials, the number of members in the union and the group's financial status.

"This is not an inexpensive coverage," he acknowledged, "but the coverage is very broad."

He also indicated that the underwriting on the policy was stringent. "There are many unions which are very trustworthy but there are others that are not a fit subject for anything," he said. "A union can't just come in here and pick the coverage up."

Union officers' shield went on the market the beginning of this year and, so far, has one major client—the Brotherhood of Railway Clerks.

MR. RATTNER said the policy is available to both local and international unions but cautioned that the coverage was limited. In other words, he said, "it covers the named individual only in the position he occupies in the specific union. If a man were president of a local and vice president of an international union at the same time, he would need two policies."

As an example of the kind of situation union officials can fall into, Mr. Rattner told the story of a union in New York which was sued by a group of black people because of discriminatory practices. The union lost the suit and was ordered by the court to pay the plaintiffs \$137,000—which came out of the union treasury.

"The union officers who had discriminated were a target for the type of suit I'm talking about," Mr. Rattner said.

Half-jokingly, he commented, "If the guy has really embezzled some money from the union or something like that, he has the money to pay his attorney. Sometimes the honest mistake is a lot more troublesome."

HE NOTED THAT Tolley, which administers union pension and welfare plans as well as handling such coverages as group legal and dental plans, had taken two years to develop the union officers' shield.

"It took us almost the entire time to develop the form," Mr. Rattner said, adding that many various types of attorneys had worked on it—and that some of them felt the coverage was too broad. Others, he noted, particularly those who one day might end up defending a union officer, breathed a sigh of relief.

The company deals with other brokers and agents on coverages such as union officers' shield.

Tolley International does actuarial and consulting work along with its insurance interests, Mr. Rattner said, and concentrates on unions.

"In 1969," he noted, "we realized that labor unions were second class citizens as far as insurance coverage goes. This is an example. The law is much stricter on union officials than on corporate officers."

This coverage, he added, was an attempt to do something about the situation. While union officers' shield has not faced a court test, Mr. Rattner said emphatically, "We really believe we are within the law."

## Contract ratified

The Parkrose school district board of Portland, Or. ratified a new teacher contract calling for an overall 12.2% increase in salaries and fringe benefits. The district also agreed to pay \$11,966, or \$3.60 each month per employee, to establish a \$10,000 term life insurance program for teachers.

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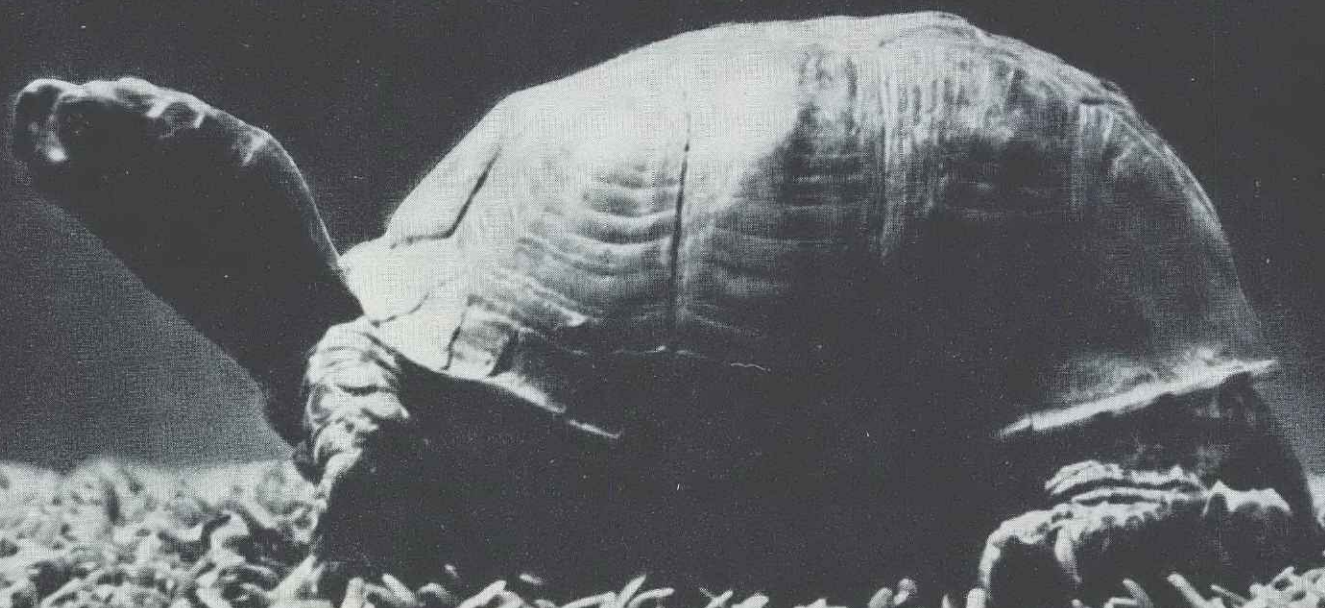
As a species, he's nearly 20 million years old. The tiger is a baby by comparison. Individual turtles often live for 120 years or more. Tigers are lucky to reach age twenty. Unlike the tiger, the turtle can live almost anywhere, and his basic design is so sound, it hasn't changed since the day he arrived. Legend has it that his steadfast character even earned him a victory over a rival with far greater speed.

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# editorial opinions

# letters

## Senator Herbert S. Denenberg?

This column is a reader's forum. Letters are welcome. Address Letters to the Editor, Business Insurance, 708 Third Ave., New York, N.Y. 10017.

**H**EBERT S. DENENBERG, Pennsylvania's insurance commissioner, left office Friday (March 29). We're sorry to see him go. During the past four or so years he has been a refreshing and vigorous regulator of insurance for the nation's third most populous state.

Mr. Denenberg is leaving to run for the U.S. Senate as a Democrat. He faces a primary battle May 21 against Pittsburgh's mayor, Peter Flaherty.

The turn to politics will undoubtedly please many of Herb Denenberg's critics in the insurance industry; "Alas, he's finally off our backs," and "Didn't I tell you he was bucking for governor or senator?" they'll say.

True, Herb Denenberg has used his office to his own good advantage these past four years. But, he has not, we feel, done so at the expense of those whose interest he swore to uphold—the people of Pennsylvania.

In the main, we feel Mr. Denenberg has done an honest and conscientious job of insurance regulation. Yes, he has been very loud about it at times. And there were times when he shot from the hip, but we're reminded that a slugger doesn't rack up a .400 average by leaving his bat on his shoulder. Too, we've been occasionally irked by his abuses of the office.

A week or so ago, for example, after he had announced his resignation, a press release on Commonwealth of Pennsylvania Insurance Department letterhead came across our desk. It attacked the Food and Drug Administration for having "done nothing" to force drug manufacturers to indicate on the label of aspirin its potential side-effects. We of course wondered what that had to do with insurance regulation in

Pennsylvania. But that's Denenberg: it's not so much how you do the job, just get it done.

Anyway, as Mr. Denenberg turns his attention to politics we're reminded of an afternoon a *Business Insurance* reporter spent with him in his Harrisburg office three years ago. He declined an invitation for a restaurant lunch and instead ordered ham sandwiches in and served them over his desk. He didn't have time for frivolities he said and right then and there we figured that the taxpayers of Pennsylvania were indeed getting their money's worth from their insurance regulator.

At that time, Mr. Denenberg was asked about charges that he was using the insurance commissioner's job as a political jumping-off spot. His response:

"If I were, I wouldn't go around kicking every special interest group in the ass. I'm just accumulating a lot of enemies, and eventually they'll catch up with me. I'll get in trouble and I'll be through . . ."

That could happen in May. Political primaries are often clubbish affairs and Herb Denenberg has not gone out of his way to join any clubs. He has, after all, alienated more attorneys in Pennsylvania than any other man, and lawyers make up the backbone of partisan politics in this country.

Herb Denenberg's venture into politics, then, should be interesting to watch over the next few months. We wish him well, and feel compelled to say—without weighing the qualifications of those he must oppose—we think he would make a good U.S. Senator. He's a dogged worker who, on balance, gets the job done.

### Broker and insured

To the Editor: I read with interest the article in the January 1974 publication of your magazine under the caption, "Risk Management Notes" by the consulting firm of Warren, McVeigh, Griffin & Huntington, entitled "Does A Broker Really Represent the Insured? Not Usually."

Needless to say, I take great exception to the contents of the article. In fact, I wonder whether the "article" was really an advertisement for the benefit of the submitters for which they should have paid a fee. The firm which submitted the articles notes that they are "consultants" and, after misstatements and illogical reasoning, comes to the self-serving conclusion that only consultants (on a fee basis) can be regarded as truly representing the insured.

The entire article is based upon misstatements of fact. There was never any question in the minds of the insurance commissioners that the broker does represent the insured. The question that the insurance commissioner reviewed was: . . . if there is a controversy between the insured, or his beneficiary, and the insurance company, whom should the broker represent? And after due and exhaustive consideration, the insurance commissioners agreed, in their Model Licensing Bill, as follows:

"Sec. 3 Duties (a) Brokers: Agent of Insured; Every insurance broker or surplus lines insurance broker who solicits an application for insurance of any kind shall, in any controversy between the insured or his beneficiary and the insurer issuing any policy upon such application, be regarded as representing the insured or his beneficiary and not the insurer . . ."

The National Association of Insurance Commissioners thereby, in June of 1973 when the model bill was adopted, came to a different conclusion than Messrs. Warren, McVeigh, Griffin & Huntington, and found that the broker was indeed the representative of the insured.

The article in question appeared in the January 1974 issue of your magazine well after the NAIC had determined that the broker was to be regarded as representing the insured, and therefore the article was inconsistent with the facts.

It should be clearly noted that the NAIC never considered that the broker was not representing

Continued on page 20

## This stab doesn't quite cut it

**S**PEAKING OF insurance regulators who get the job done, North Carolina's John Ingram may be making a stab at it but in at least one respect he isn't cutting it with us.

Mr. Ingram has appointed a 17-member consumer's insurance council, which, according to an aide, is made up of "friends of the commissioner." A banker, two housewives and a retired sports coach are on the panel.

It's fashionable these days for insurance commissioners to appoint consumer panels, and that is fine. What fails to impress us about this one, though, is the fact Mr. Ingram has ignored representation on the panel by an enlightened consumer—a member of the American Society of Insurance Management, say.

We're told that at least one of the local chapters of ASIM apprised the insurance commissioner of its willingness to serve him in any way more than a year ago. Mr. Ingram has ignored the offer.

Perhaps Commissioner Ingram is so well insulated from things that he hasn't learned what local ASIM chapters are

all about, for we're told—again by an aide who seemed not to want to let us speak to the commissioner—that Mr. Ingram may appoint another committee which would deal more directly "with these business people" at some point in the future.

Commissioner Ingram certainly isn't getting the job done if he thinks the only consumers he is responsible to are those such as his friends whose exposure to insurance is generally limited to the purchase of life, auto and homeowners insurance.

It's hard to imagine that Commissioner Ingram could be unaware of such a thing, but millions of North Carolina dollars are spent on commercial lines of insurance coverage. These consumers also deserve the ear of the state's insurance regulator. Indeed, as "professional buyers" they could provide most valuable counsel to him.

We hope Commissioner Ingram reconsiders and turns an ear to the commercial insurance buyer. Perhaps he should have an ASIM member or two in for a ham sandwich. We're sure ASIM would spring for the tab.

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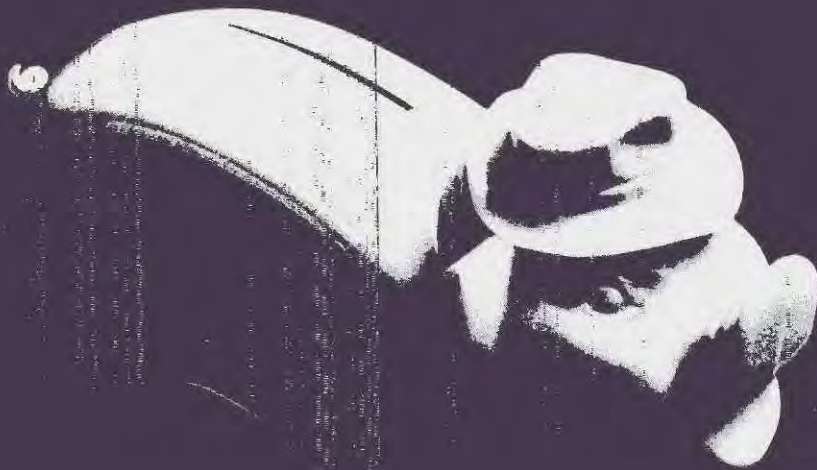
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## Letters to the editor...

Continued from page 18

his insured in all other areas, including the "purchasing" of insurance.

Based upon untrue and incomplete statements as a premise, the article then follows an illogical pattern to the self-serving conclusion that it wishes to reach.

Brokers have, by their actions and services, clearly and decisively evidenced that they do, in fact, represent the insured. This has been recognized not only by the NAIC but also by the state legislatures which have provided for the appointment of insurance brokers as "consumer representatives" to be governing committees of automobile insurance plans, property insurance underwriting associations, as well as other consumer advisory positions.

Donald D. Gabay

Chairman, Council of Insurance Brokers of New York Inc.

### Insured or insurer?

To the Editor: I noted with interest the comment by Warren, McVeigh, Griffin & Huntington in the column "Risk Management Notes."

The subject of whether the broker represents the insured or the insurer is one in which I am vitally interested.

Approximately ten years ago, the insurance carrier I work for made the very conscious decision that a broker represents the insured, not the insurer. In reaching this decision, we came to the same conclusion as Warren, McVeigh, Griffin & Huntington. The broker must be compensated directly by the insured.

To provide some inducement for a broker to negotiate his compensation directly with the insured, we reduced our commission scales on every thing but the smallest size case to well below that of any other insurer in the industry. Our commission agreements even acknowledged the fact that the broker represents the insured, not the insurer.

Did it work? The answer is no. Even when provided with the tools to accomplish what they preach, most brokers are still reluctant to contact an insured directly to negotiate their compensation. Why this reluctance to discuss compensation with the insured? I wish I knew.

This decision has not prevented our company from increasing its share of the total market. It has, however, resulted in all but a small number of brokers "demanding" the standard industry commission scales rather than using the opportunity to discuss

their compensation with the insured.

The commission which any insurer pays is really the insured's money. The insured, not the insurer, should have the right to control the disposition of this money. To tell an insured he does not have this right appears, to me at least, to be an extreme presumption on the part of the insurer.

We hear a great deal about the broker representing the insured. Brokers apparently do not wish to avail themselves of the opportunity to accomplish this even when they are provided with the necessary tools. Why?

A. M. Howard

Toronto, Canada

### Small group medical

To the Editor: An article in your issue of February 18, 1974 describes Mutual Benefit Life's new major medical maximum of \$1,000,000 for groups as small as

two lives.

I would like to point out that The Guardian has been offering both the \$1,000,000 major medical maximum and the unlimited maximum for groups of as few as two for some time now.

In addition, The Guardian's group major medical offers 100% reimbursement of covered charges, with the exception of private duty nursing which is reimbursed at 80%, once the deductible has been satisfied.

I call your attention to these items because of Mutual Benefit Life's claim that no one else has these coverages available for groups of 2 to 24 lives.

Lawrence E. Graham

Director, group sales, The Guardian Life Insurance Co., New York, N.Y.

### Interest in survey

To the Editor: In your March 4, 1974 issue an article entitled "fewer groups offer maternity coverage after 5 years" mentions a survey conducted by the Health Insurance Institute (HII).

I am interested in receiving a copy of this survey. Would it be possible for you to give me some information in order for me to get a copy of this survey.

Olinto A. Parenti

Corporate employe benefits administrator, Consolidated Cigar Corp., New York, N.Y.

Editor's note: You can contact the Health Insurance Institute at 277 Park Ave., New York, N.Y. 10017.

### Misstatement

To the Editor: The feature article in the Jan. 21 issue of *Business Insurance* entitled "Computerized for earthquake reinsurers" was well received by our company, but we draw your attention to a misstatement of our cost. Cost of the earthquake risk analysis service should have been shown as ranging from approximately one-eighth to one-half of 1% of the appraised value of the buildings or about \$5,000 to \$60,000.

James Lord

General Manager, Group 10 Systems, Los Angeles, Ca.

## Commission can provide comp reform

LOS ANGELES—California is now in a position to solve for itself, as well as for all other states, problems in workmen's compensation reform not tackled by the National Commission on State Workmen's Compensation Laws, according to Clarence G. Johnson, executive director of the National Program to Improve State Workmen's Compensation.

Mr. Johnson told 400 employers, municipal and labor representatives attending a National Safety Council meeting one of the major "solvable" problems is that of permanent partial disability payments.

"The newly created California state commission," Mr. Johnson declared, "has the talent, the time and the money to come up with answers that will serve the whole country."

"Reform of workmen's compensation laws," he added, "after 30 years of little if any attention, will cost money but not in any prohibitive amounts."

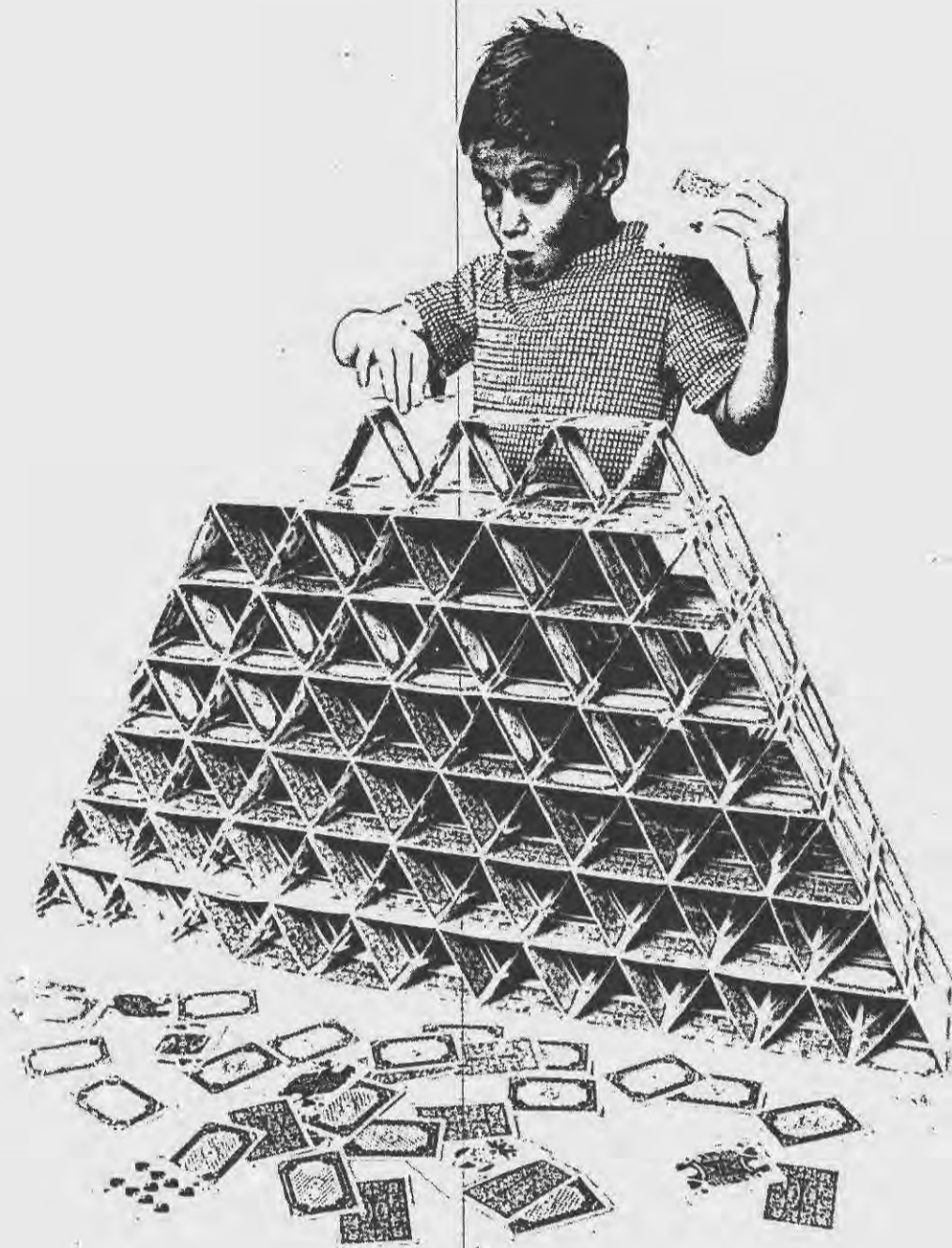


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# Benefits expert advises caution on HMOs

TAMPA, FL.—Anyone planning to institute health maintenance organization membership for employees would be well advised to wait for the government to issue its final regulations before acting, an employee benefits expert cautioned a group of union leaders here.

Mentioning HMOs as one of many important trends in the benefits field, Lee R. Polacheck, executive vp of the International Foundation of Employee Benefit Plans, told the annual meeting of the Florida Building Trades Council that further HMO regulations will be issued later this year even though the Health Maintenance Act is already on the books.

"I imagine some of you already have been wrestling with this matter and I might inject a word of caution at this point," Mr. Po-

lacheck said of the HMO law. "At foundation headquarters we have received reports of promoters hopping on the HMO bandwagon.

"**THEY ARE TRYING** to sell employe health plans HMOs of doubtful character and which, in some cases, are not yet built," he continued. "Our members close to the government scene tell us that final and specific regulations of the law will not be issued until later this year. Those of you with any responsibility for health plans might do well to wait until that time before acting. In any event, seek the counsel of your plan advisors."

Looking to the developments and trends in the area of pensions, Mr. Polacheck, after noting the continuing drop in the usual retirement age and the problem

of inflation eating away at fixed pension benefits, said that repairs in the system are being made.

One of these repairs, he said, is "linking retirement benefits to final years on the job, as opposed to career pay, which normally is a much lower figure. Another is linking retirement benefits to some 'improvement' formula, like the Consumer Price Index.

"Also," he continued, "many retirees in particular situations will be getting a better break through growing utilization of profit-sharing, thrift-savings, stock option and deferred compensation plans. Development of sound methods so that retirees can succeed financially will continue to be a dominant concern in years ahead."

Also in the pension area, he pointed to the growth of portabil-

ity-reciprocity arrangements, earlier vesting and the future impact of legislation.

"A final observation in the pension area," Mr. Polacheck said. "That is the growing utilization of pre-retirement counseling programs. Such programs aim to help retirees prepare for all facets of their life of leisure—from finances to health, from legal affairs to the use of a new-found abundance of spare time. Unions across the country are more and more placing these programs among their collective bargaining objectives."

**MR. POLACHECK** noted that some 150 million Americans are now covered in some way by group health plans and that changes are continuously taking place, even in the face of national

health insurance proposals.

Preventive medicine, which encompasses both HMOs and the increased use of multiphasic screening along with health education and more emphasis on outpatient care, are some of those changes.

In the health area, a trend that could not be ignored in Mr. Polacheck's view is group dental insurance.

"In 1973," he said, "insurance companies paid about \$250 million in dental care benefits—and insurance companies have less than 60% of all persons covered by dental plans. The field has tripled in five years and now about 14 million persons have dental benefits.

"Optimistic estimates indicate that by 1980, the figure will be 40 million," he pointed out. "And finally, it is possible that dental coverage may be a part of a national health insurance plan."

**OTHER TRENDS** in the health area, as listed by Mr. Polacheck, include coverage for alcoholism, drug addiction, chiropractic care and even acupuncture.

"But the newest twist," he said, "is coverage of pregnancy as an illness in provision of disability benefits—weekly payments to make up for lost earnings. And this says nothing of including in coverage the maternity care of unwed mothers or benefits for abortion."

In other benefit areas, Mr. Polacheck felt that the growth of group legal plans is notable.

Noting that such plans are now getting a good "trial" in the south and far west, Mr. Polacheck said, "Plans run the gamut in coverage—and so, then, does their cost—from limited consultation provisions with a premium of about 50 cents a month to virtually complete legal services costing about \$10 per month per member."

**HE ALSO POINTED** to the mass marketing of auto insurance, as well as other coverages such as homeowners and personal property, and other "quality of life" benefits, including credit and income tax preparation services as new group benefit trends.

Help in commuting, such as subsidies to car pools, and the formation of family counseling and child care centers might also continue to grow as benefits, though they remain somewhat unique, he predicted.

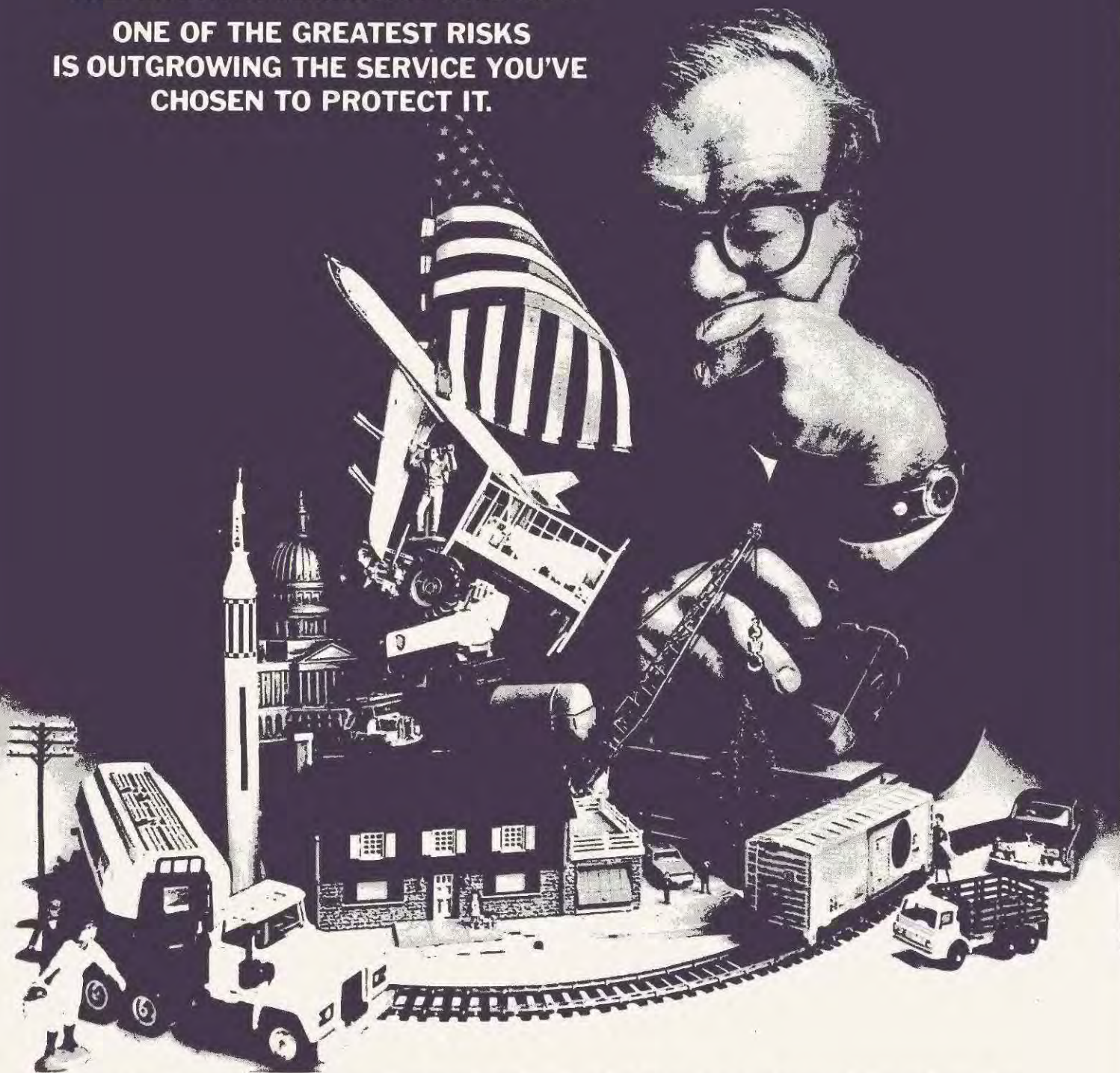
Mr. Polacheck also told his audience that the concept of cafeteria compensation—though he objected somewhat to the term "cafeteria," preferring instead "tailored compensation,"—is another growth area.

"Cafeteria implies take it or leave it," he commented. "Or, at the extreme, take all of one kind, the most likely favorite being cash. Tailored means suiting to an individual situation.

Pointing out that tailored compensation and items like the legal counseling and investment planning are not that far out, Mr. Polacheck said that ten years ago, most workers would not have thought that today one-third or more of their earnings would be in the form of benefits.

Using that, and other examples of the growth of the employe benefits area, the foundation spokesman commented, "The benefits side of what you, I and all American workers earn is like our paycheck dollar—anything but stagnant. The fringe benefits package of tomorrow will indeed be quite different from today. ■

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# ASIM group, in good citizen role, suggests Denenberg replacement

PITTSBURGH—The Insurance Buyers Assn. of Pittsburgh last month recommended to Gov. Milton Shapp in a letter that he replace outgoing insurance commissioner Herbert Denenberg with another commissioner of definite consumer orientation.

According to Leland Deck, the insurance buyers legislation committee chairman, the chapter of the American Society of Insurance Management is now "embarking on a new activity—we are taking the good citizenship role."

Mr. Deck, risk manager for the University of Pittsburgh and the person who started the chapter moving in its new direction, said that the group has submitted two names for the governor's consideration—Rodney E. Pyfer, an ex-insurance manager and special assistant to Mr. Denenberg, and John J. Sheehy, currently deputy insurance commissioner.

**IN HIS LETTER** to Gov. Shapp, Mr. Deck, as spokesman for the chapter, said that any person named insurance commissioner should meet certain specifications.

"The next commissioner should be qualified by experience which has provided him with both an extensive technical knowledge of insurance matters and a clear orientation to the interests of the consumer vis-a-vis the trial lawyer, the broker or the insurance industry executive," it said.

"In order that a candidate meet the criteria relating to orientation," it continued, "we believe that his employment in at least the immediate past five years be as a risk and insurance manager or in other service to the insurance buying public such as may occur in a state insurance department that regulates the brokerage and insurance industry."

**THE CHAPTER**, which would certainly like to see either Mr. Pyfer or Mr. Sheehy appointed to the post, made the recommendations to the governor for another important reason.

"We were worried that the Gov. Shapp, who is in the midst of his own campaign for reelection, would appoint a strictly political hack to the job," Mr. Deck commented. "We wanted him to know that a group of responsible citizens was watching him."

"The point is," he continued, "that the governor appoint

someone with that consumer orientation. But when you come right down to it, we'd rather see an insurance company man in the job than a hack."

Mr. Deck said that the chapter had taken positions on legislation prior to this time but this was the initial stand for an appointment. He got the idea, he said, last fall when the Cleveland chapter of ASIM called the Pittsburgh chap-

ter and asked it to write a letter to the governor of Ohio, who was then about to appoint a new workmen's compensation commissioner.

"The companies, many of them based in Pittsburgh, also do business in Ohio," he said. The chapter wrote the letter—and asked the Cleveland chapter to write to Gov. Shapp on this matter.

Commissioner Denenberg, who has announced himself a candi-

date for U.S. Senate in Pennsylvania, commended the risk manager's group for taking the action.

"**ASIM'S A PRETTY** good group," he commented. "They are a countervailing influence on the insurance companies. What they do is important and I'm glad to see that they are taking an interest and getting involved. More groups ought to."

The commissioner declined comment on who he thought his replacement might be or what he thought of the chapter's recommendations.

"The governor should consider the field," Mr. Denenberg said, adding that he had made his own

recommendations to Gov. Shapp. "I really don't think I should now interfere with the governor's choice."

In the letter to the governor's office, the Pittsburgh ASIM chapter pointed out that its members alone spent somewhere in the area of \$300 million a year in premiums.

"That may have been an under estimate," Mr. Deck said, listing some of the chapter's members—U.S. Steel, Gulf Oil Corp. and Westinghouse Electric Corp., to name a few. He said the premium figure was to show the governor that the members really had an interest in the insurance regulation process.

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## Plummer to OSHA post

WASHINGTON—John E. Plummer, a 36-year old computer expert, was named to the \$32,000-a-year post of associate assistant secretary for administrative programs for the Occupational Safety and Health Administration (OSHA).

Mr. Plummer joined OSHA in 1971 as deputy director of management data systems. He had previously worked for the National Cash Register Co.

Mr. Plummer, who will manage internal services for the agency, is the last of three associate assistant secretaries to be appointed.

Earlier this year, Barry J. White was named to head OSHA's regional programs and Alexander J. Reis was named chief of national programs.

# Logging injury rates are hard to whittle down

By STEPHEN GOOD

TACOMA, WA.—Logging has never lost its reputation for being a rugged and dangerous industry—and recent work injury statistics show the reputation is well deserved.

In a 1972 survey, the Occupational Safety and Health Administration (OSHA) found that "lumber and wood products" had the highest incidence rates for work injury and illness cases. While the average for all manufacturing was 15.5 cases a year per 100 full-time employees, the lumber industry averaged 25.1.

Significant improvements have been made in work safety for lumber and wood mill company employees, especially among the industry's corporate giants. But according to most logging experts interviewed by *Business Insurance*, serious safety problems remain in the smaller companies and mill operations.

"LOGGING IS DANGEROUS and it's hard work. But if the small operators would take after the larger ones and clean up their shops, this could cut the accident rate by 90%," said one OSHA official.

"Our inspectors have run across some pretty bad situations with small mill operators. I've seen some pretty horrendous citations. One woodworker was killed last year when he was pulled into a lathe. We have some gruesome examples."

Robert Belknap, manager of the industrial dept. for the National Safety Council (NSC) echoed the complaint about small logging and sawmill outfits. He added that "throughout the industry you run into problems with the physical territory where the work is done. Physically getting the trees out to where they're processed is a hazardous operation. Then there are falling limbs and big machines. When you have an accident it's liable to be a pretty good one."

While many other industries have gradually become dominated by a few large companies, logging has remained among the industries where large companies exist, but are outnumbered by independent operators.

"IN THE OLD DAYS almost anybody with a little money and equipment could get into the industry," explained Dick Tuttle, manager of accident prevention for the Western region of Georgia Pacific Corp.

"Major corporations with lots of operations came to recognize a need for safety measures. But there are a tremendous number of independently-owned mills and logging operations. And these small firms are frequently strapped for ready cash. So they don't have what it takes to maintain a good safety program."

Because of the exposure to injuries, and because of the lack of a technological approach by these operators, there are still a lot of injuries in the industry."

WHERE THE LOGGING industry is dominated by small business, statistics tend to prove their high injury rates. The U.S. Dept. of Labor's report on injury rates by industry for 1970 shows that selected states varied widely in their injury statistics. While the national average was 34.1 accidents per million manhours, South Carolina had a low accident rate of 28.8. Wyoming reported almost four times the national average, 123.8 accidents per million manhours.



A spokesman for the Wyoming Dept. of Labor said "I really don't have too much of an explanation. The state lumber operations are fairly small. Wyoming only has one private employer with over 500 people, and that's the phone company."

Large lumber companies sometimes take elaborate measures to

keep down the frequency and severity of their work injuries. One example is the Weyerhaeuser Co., a Tacoma-based firm with 47,000 employees and numerous lumber camps, planing mills and sawmills.

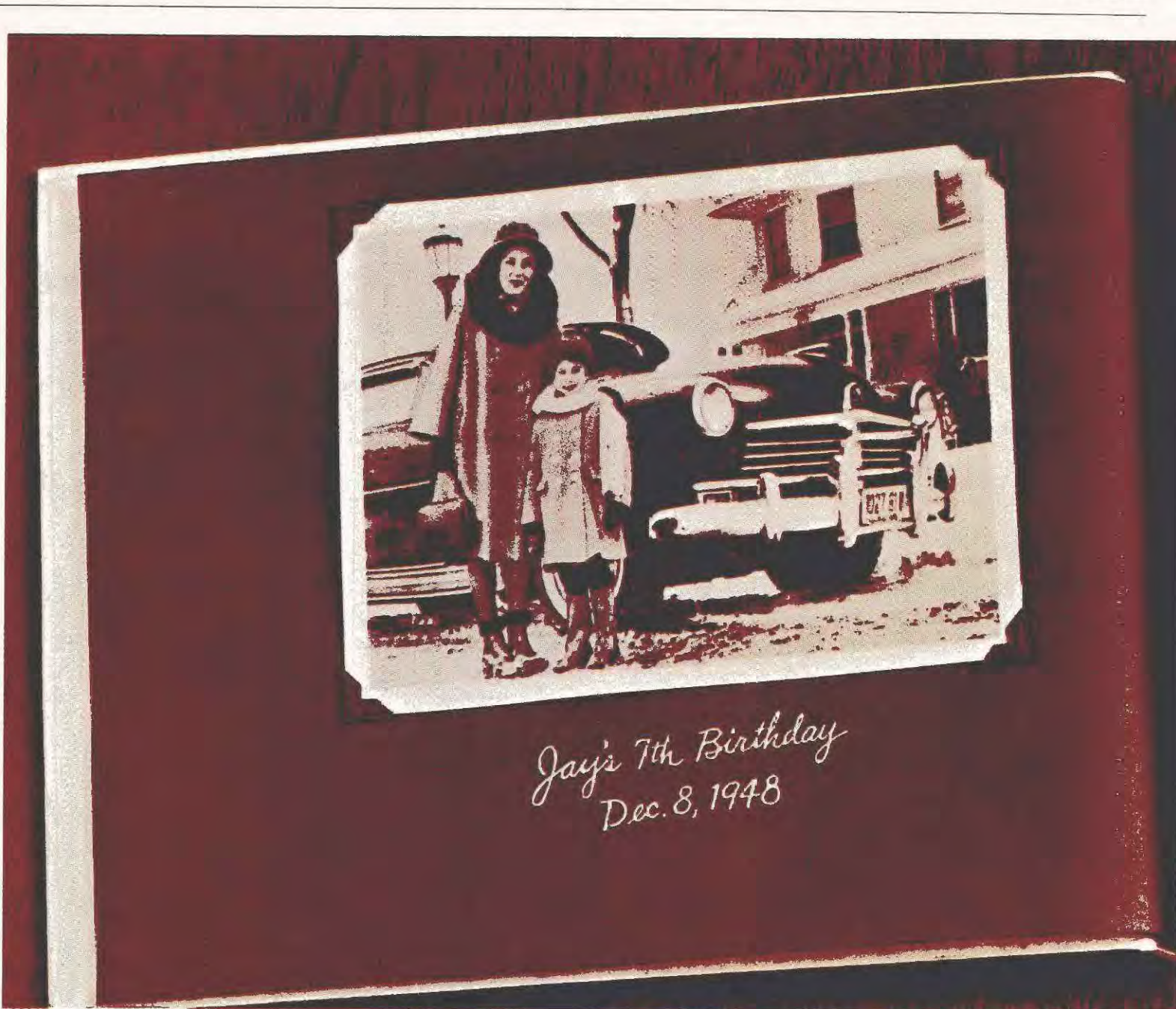
"We have first aid facilities in the camps, and at least seven helicopters for emergencies," said

Lou Hoelscher, a Weyerhaeuser safety manager. "Civil Air Patrol helicopters are also on ready for our Klarath Falls camp in Oregon. And in northwest Washington we have an emergency medical evacuation service provided by the Army. We're hooked up to them for any of our logging operations within 100 miles of the

Army's Tacoma field.

Mr. Hoelscher noted that accident prevention is emphasized by management, in "Reams and reams of specific training programs. We not only use the NSC programs, but if there's any program applicable to the industry, we purchase it."

*Continued on page 25*



It's still not easy to forget 1949. 42,375 healthy young Americans were struck down by "infantile paralysis."

## In 1949 a polio vaccine was only a dream.

The polio epidemic had been

its first year of inconceivable virulence.

By the end of 1952, 118,979 more people,

mostly children, would become polio statistics. At

that time, the Sister Kenny method of therapy was helping to restore mobility to the suffering. Participating mothers of the March of Dimes were collecting money for research and a cure that was 6 years away.

## That's when CNA stood up to the harsh realities.

When the epidemic struck, the reaction in the insurance market was sudden.

An incredible demand for polio insurance.

What became one of the most urgent questions of 1949 was "Who would insure people for polio?"

Continued from page 24

Weyerhaeuser operations supervisors must have Red Cross first aid cards, he added. In some areas 80-100% of the employees also have cards.

Accidents are most frequent in the planing mills, but these are often splinter cuts and minor hand injuries, Mr. Hoelscher commented.

"THE CAMPS have more severe accidents, although they are fewer. You don't have uniform things going on every day in a camp. The workers have to be flexible in their work habits. They have to be able to use their heads to figure out hazards."

In the logging camps, the company has a few rules that are enforced as much as possible to keep down the risk of injury. One of them requires loggers to stay outside the "bight of the line." This means keeping out of the rope loop that pulls taut

around a tree trunk before it is towed away.

"We also require our (tree) fallers to have a getaway path from the direction of the fall. And we expect the loggers to stay far enough away from a stump to be 'in the clear' when a tree falls. Anything within 20-30 feet from the tree could be dangerous."

Due to the wilderness environment and the variety of risks encountered at a logging camp, government regulations for working conditions are hard to formulate or enforce.

"OSHA makes inspections of Georgia Pacific's operations, Mr. Tuttle said. "But I don't really see where they could do more than what they're doing. I think it's been a boon but I don't think it's going to do what Congress established it to do. You're going to have people getting injured anyway, mostly due to mental lapses."



This logger has a yearly 1-in-4 chance of getting sick or hurt.

## ASIM annoyed with Ingram appointments

RALEIGH, N.C.—Insurance Commissioner John Ingram last month named a new statewide consumer's insurance council.

Local members of the American Society of Insurance Management are annoyed about the list of names. None of them are on it.

"ASIM has faced an on-going struggle over the past couple of years to get on these panels," an irate ASIM member told *Business Insurance*. "We are professional insurance men, just like agents and carriers, but we can also speak for the consumer because that's what we are."

The ASIM member said his chapter sent letters to Mr. Ingram and the new governor in

Jan., 1973, stating that ASIM would like to serve, at its own expense, in any way possible. ASIM received an acknowledgment of the letter. "And that has been our only contact with Ingram," the ASIM member added.

THE COMMISSIONER'S committee, which Mr. Ingram himself said would serve as his eyes and ears with the people of the state, has 17 members, ranging from a banker to two housewives to a retired coach.

"The consumer group is made up of friends of the commissioner's," explained Roy Rabon, the insurance department's information officer.

"It irritated the hell out of us when an ASIM member was not named to the council," the ASIM spokesman said. "We are being deliberately ignored, at least not being given the chance to participate. They are pretending ASIM does not exist and I personally resent the cold-shoulder treatment."

"This is just another example," he continued, "of the regulatory authorities, both state and federal, saying that there are only two sides to the triangle. They listen to agents and carriers but they just assume there is no professionalism in anyone on the buyer's side."

After repeated calls to Commissioner Ingram's office, *Business Insurance* was told by the information officer that "sometime in the future" the commissioner planned to name another committee which would deal more directly "with these business people."

## OSHA says it may reject D.C. proposal

WASHINGTON—The Occupational Safety and Health Administration warned District of Columbia officials that OSHA will reject the District's job safety and health plan because of its exclusive reliance on criminal penalties for enforcement.

OSHA had earlier warned Virginia state officials that its safety and health plan would be rejected for the same reason.

The state and the district stands to lose federal subsidies that pay 90% of the cost of developing the safety and health plans and 50% of the plan operating costs for failing to win approval from OSHA.

OSHA officials said enforcement of the law under the criminal system is "more burdensome and cumbersome, and therefore less effective than operating under a civil system."

Employees would be virtually barred from the appeal process under the criminal statutes, and would be unable to legally contest abatement periods.

An abatement period is the time granted employers to correct a workplace hazard. Under the system directly run by OSHA, employees may contest these periods.

"With cases pending in criminal courts, it would be impossible to enter into this negotiation" on proposed abatement periods, says OSHA.

OSHA allowed District of Columbia director of industrial safety Charles T. Greene until late last month to amend the district's plan.



Jay's 8th Birthday  
Dec. 8, 1949

There was one company that had the perseverance to stand up to the harsh reality of a possible persistent crisis. Continental Casualty Company, a member of CNA/insurance.

In June of 1949, one month before the epidemic would begin to take on drastic momentum, Continental Casualty first announced its famous "polio policy." A policy that provided comprehensive coverage for children from three months to 19 years and their parents too. Hours before the offices were opened, thousands of people were lined up. Policemen had to be used to keep the waiting crowds organized. Mountains of applications were accepted at a furious rate.

From 1949 to 1953, Continental Casualty exclusively wrote nearly 2 million policies—primarily in critical epidemic areas. And they continued to offer polio coverage right up to 1972. It was insurance history.

Offering such coverage is what made us part of a growing three and a half billion dollar corporation. Growing then as now—because we have the special skills to write insurance where others can't. Or won't. And the special kind of CNA people and independent agents that can make it possible. People who write insurance not to be first. But to set precedents. To go where insurance never was. Do what insurance never did. And do it better than anyone else.

To learn more about how we can solve your insurance problems today, call your CNA agent. We're listed in the Yellow Pages.

GOING WHERE INSURANCE NEVER WAS  
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# Pension plans cover 53 million in 1972

NEW YORK—Major private and government-administered pension plans covered nearly 53 million active and retired workers in January 1973, according to statistics released by the Institute of Life Insurance. Social Security also covered a majority of these persons.

Not included in the total are over one million survivors and dependents of deceased workers who were receiving benefits.

During 1972, the number of covered workers increased more than 2.2 million or 4.4%. There was a 7.8% gain in pension plans funded through insurance companies and other private plans gained about 2.5%. Government-administered plans gained 4.6%.

**BENEFIT PAYMENTS** continued to increase during the year, as did the number of retired workers receiving benefits. Private pension plan payments showed the greatest gain in 1973.

In 1972, retired workers were

paid a total of \$43.8 billion, compared with \$14.7 billion paid in 1962. Private plans paid \$9.6 billion in 1972 to 2.6 million persons who retired because of age, length of service or disability. This is a 400% increase in ten years.

Government-administered plans increased payments 300% in ten years, paying \$8.5 billion to 2.6 million retired persons.

**SOCIAL SECURITY** paid to 16.4 million persons totaled \$25.7, an increase in ten years of 260%. Persons who received both Social Security and pension benefits were included in all statistics.

Assets and reserves held for private retirement plans came to \$169.8 billion in January 1972. Plans funded through life insurance companies had assets of \$52.3 billion and \$117.5 billion were placed behind other private plans. Government-administered plans had assets of \$106.1 billion and Social Security trust funds had \$42.8 billion in assets.

The overall total of assets for 1972 amounted to \$318.6 billion, up from \$125.3 billion ten years before.

Payments into private pension and retirement plans in 1972 were \$19.6 billion, with employers contributing over 90%. The total payments into government-administered plans were \$14.8 billion, with employers in different branches of government, including the railroad contributing nearly 60%. Social Security taxes were \$42.9 billion, divided equally between employers and employees. ■

## Expansion announced

Rollins Burdick Hunter Co., headquartered in Chicago, and C. E. Heath & Co. Ltd. of London, announced a joint venture expected to expand their insurance business in Southeast Asia and South America. Both firms have international departments doing a world-wide business and their combining in Southeast Asia and South America is expected to provide major growth impetus and added service capabilities in these markets.

# info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*. Readers are welcome to submit items for possible inclusion in the column. A sample of your literature should be sent to Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

• **More for Your Premium Dollar** is a booklet published by E. H. Crump Co. Inc. It contains a brief but detailed description of the programs and services available to corporate executives, agents and brokers who may need special handling of special risks. For a free copy write Frank Pidgeon, E. H. Crump & Co., 110 Adams Ave., Memphis, Tn. 38103.

• Allstate Insurance Co. is offering a **Product Liability Loss Control Plan** pamphlet. It summarizes activities involved in a planned product liability loss control program to meet safety and legal responsibilities while developing an effective claims defense. For a free copy, write Q. C. Anderson, Commercial Loss Control Director, Allstate Insurance Co., Allstate Plaza D-1, Northbrook, Ill. 60062.

• **A Group Income Protection Plan** for employers with 10 to 40 employees is a new pamphlet available from Combined Insurance Co. of America. This booklet describes IMAGE 1040, an easy to install plan that can help avoid loss of income due to disabilities from sickness and accident. For your free copy write Harold Lawrence, Director of Marketing Services, Agency Division-Group Insurance, Combined Insurance Co. of America, 5050 N. Broadway, Chicago, Ill. 60640.

• **The ABC's of Fire Protection** is an 8½ by 25 inch fold-out chart which supplies basic information on choosing the correct portable fire extinguisher for the various classes of fires. For a free copy of the brochure write Advertising Mgt., Walter Kidde & Co. Inc., 675 Main St., Belleville, N.J. 07109.

• **OSHA Consultation Services** explains NATLSCO's services: compliance program verification, special technical services, pre-compliance analyses and compliance status surveys. The brochure describes the types of problems each service can resolve and details on how their consultants work with client's personnel. For your free copy write National Loss Control Services Corp., Long Grove, Ill. 60049.

• A brochure titled **Top Security** is available from Multra-Guard Inc. The company's Multra-Sonic 2 system, a sound detection system that allows a monitor to "listen" to noises on protected premises, is highlighted. For a free copy write Lon B. Fugate, vp, Multra-Guard Inc., 1930 E. Pembroke Ave., Hampton, Va. 23663.

• This is **OSHA**, a U.S. Dept. of Labor film on job safety and health, is available on a free loan or purchase basis throughout the country. The 16mm color film reports progress in the agency's first two years and covers standards-setting, inspections, training and education, state programs and voluntary compliance. The film may be obtained by free

loan from any of 27 film libraries of the Modern Talking Picture Service in 19 states and D.C. For additional information write the U.S. Dept. of Labor, Occupational Safety and Health Administration, Washington, D.C. 20210.

• **No Time For Bugs** is a booklet containing humorous case histories illustrating the right and wrong ways to handle medical situations. It was originally published by Time Insurance Co. for its own policyholders, but is now widely available. Its objective is to show readers how they can hold down medical expenses and inconveniences particularly where hospitalization is required. For a copy write Communications Dept., Time Insurance Co., 515 W. Wells St., Milwaukee, Wis. 53203.

• Royal-Globe Insurance has prepared a 64-page booklet entitled **Burglary Protection Devices**. It is profusely illustrated with lock and alarm system diagrams, and includes pointers on how to protect against burglary. Cost of the booklet is \$1. Requests should be mailed to Joseph Venturelli, Corporate Communications Dept., Royal-Globe Insurance Companies, 150 Williams St., New York, N.Y. 10038.

• **Classrooms Where Experts Learn** describes the Safety First Products Corp.'s fire school where corporate executives can acquire first hand experience in fighting all types of industrial fires with the latest dry chemical techniques and equipment. Write E. T. Robinson, Safety First Products Corp., 3684 Meadow Lane, Dept. BI, Cornwells Heights, Pa. 19020.

• **Group Survivor Income Benefits**, available from Northwestern National Life Insurance Co., describes the company's plan which provides a continuing monthly income with an optional lump sum death benefit. Survivor benefits are expressed as a percentage of an employee's monthly salary. For a copy of the brochure write Northwestern National Life, 20 Washington Ave., So., Minneapolis, Mn. 55440.

• Nationwide Boiler Rentals Inc. publishes an **Emergency Steam Plan Analysis** which shows how to develop a company plan for emergency boiler outages, with suggestions of how to analyze steam demand and minimize plant interruption in case of boiler breakdown. For a copy write Richard K. Bliss, Nationwide Boiler Rentals Inc., 175 S. San Antonio Rd., Los Altos, Ca. 94022.

• **Plain Talk on Products Liability Overseas** is published by AFIA Worldwide Insurance. In it, the company describes why product liability is needed overseas and explains the differences between the way such coverage is written domestically and for overseas exposures. For a copy write Joseph B. Weimert, AFIA Worldwide Insurance, 1700 Valley Rd., Wayne, N.J. 07470.

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• A publication from Public Institution Consultants is available describing the **Sovereign Immunity Doctrine** throughout the United States. This is a report for liability insurance buyers. The report includes definition, history and the current trends including the very latest court decisions and legislative action. This report explains how and why sovereign immunity is constantly changing. The price is \$5.00 and can be obtained by writing Public Institution Consultants, 5725 Fremont Pike, Box 181, Stoney Ridge, Oh. 43458.

• The National Assn. of Independent Security Contractors is making available a copy of a standard form guard and security contract. There is a \$1.00 charge to cover handling. Write Allen B. I. Silverman, Security Services Inc., P.O. Box 123, Southfield, Mi. 48075.

• Yosemite Great Falls Insurance Cos., based in San Francisco, is making available a **Marketing Guide** which briefly outlines what the company has to offer in various states, as well as by type of coverage written in personal lines, commercial and casualty lines, commercial property and ocean marine lines. For a free copy write Richard A. Evans, Yosemite Insurance Co. 717 Market St., San Francisco, Ca. 94103

• Benefacts Inc. has published a **Total Approach to Communication** which explains how the employer benefits from the employee benefits program when employees fully recognize and appreciate the investment made for them. The brochure provides basic information on individualized intracorporate benefits communication programs set up by Benefacts on comprehensive multi-media levels. For a copy write Robert Eilerson, vp marketing, Benefacts Inc., Hampton Plaza, 300 E. Joppa Rd., Baltimore, Md. 21204.

• A series of books released by the General Adjustment Bureau, tells small employers, employee representatives, insurance safety engineers, state and federal inspectors, trade associations, and others about the OSHA act. It answers questions like how to cope with its provisions, how to protect machines and equipment and how to set up a system for voluntary self inspection for compliance. For your free copy write Management Services, General Adjustment Bureau, 123 Williams St., New York, N.Y. 10038.

• Gay and Taylor Inc. has published a **Directory of Facilities** which lists multiple line adjusting services available through over 100 offices in the East and Midwest. Company history, experience, quality control procedures and special services are also covered. The directory is published twice a year and is free to *Business Insurance* readers by writing James E. Gay II, Gay and Taylor Inc. P.O. Box 1410, Winston-Salem, N.C. 27102.

• **Excess Casualty Insurance**, a new pamphlet from American Home/National Union, describes the excess casualty lines being offered by these companies. For a copy write Dept. 12, American Home/National Union, 102 Maiden Lane, New York, N.Y. 10005.

• **Retrospective Rating** is a primer by John R. Stafford. It teaches the fundamentals of retro and includes several fully illustrated step-by-step retro plan D calculations. The cost per copy is \$5.50. For information write J&M Publications, P.O. Box 338, Palatine, Ill. 60067.

• A brochure on the **Mini Mux 200** multiplex data transmission system is available from American Multiplex Systems Inc. For a free copy write Jerry Luck, Security Equipment Division, American Multiplex Systems Inc., 175 Freedom Ave., Anaheim, Ca. 92801.

• American Credit Indemnity Co. offers a brochure which answers the most frequent questions about commercial credit insurance. For a free copy write Ms. Lenza Wright, American Credit Indemnity Co., 300 St. Paul Place, Baltimore, Md. 21202.

• **New Dimensions** is the new information booklet of the International Foundation of Employee Benefit Plans. The booklet focuses on the organization's broadened educational services and outlines the organizations structure. For a free copy write the foundation, P.O. Box 69, Brookfield, Wi. 53005.

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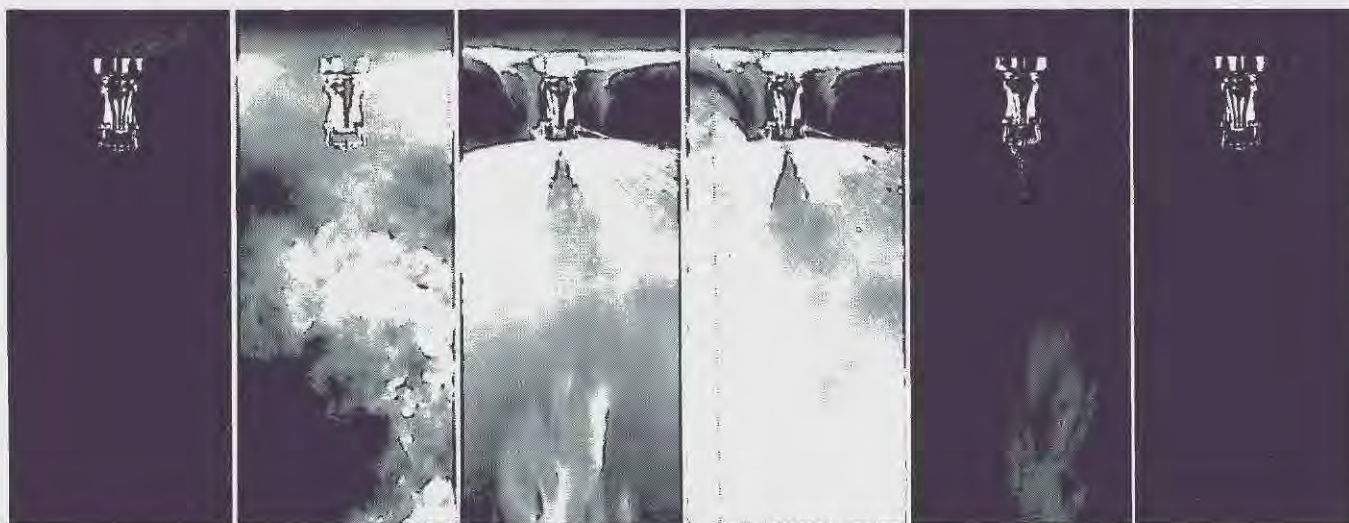
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# Coal miners' strike for benefits seen as test of UMW strength

HARLAN, KY.—Coal miners demanding larger pensions and safer working conditions have been on strike at the Brookside mine here for more than eight months.

But another issue looms bigger than the employe benefits dispute. The United Mine Workers of America wants to regain a footing in the eastern half of Kentucky, which it lost during the graft-ridden slump years of the 1960s.

"This is definitely the bell-weather for our organizing efforts in east Kentucky," said a spokesman for the UMW. "The other miners are waiting to see how this turns out before joining the union . . . We feel there could be a domino effect after the strike is won."

The strike began July 30, about a month after the Brookside miners voted 113-55 to drop their memberships with the local Southern Labor Union and join the UMW. Many miners had complained that the 3,000-member SLU was controlled by the North Carolina-based Duke Power Co., whose local subsidiary, Eastover Mining Co. owns the Brookside mine.

**THE MINERS** walked out on strike when Eastover's president, Norman Yarborough, would not accept the UMW's 1971 national contract. He said the UMW's demand of 80 cents per ton in royalties for the union welfare and retirement fund was unacceptable. SLU's hospitalization and pension royalty is only five cents a ton.

The UMW "just can't" bargain for less than 80 cents a ton, the union spokesman explained. The union badly needs to bolster its pension fund, administered jointly by the UMW and the coal industry's Bituminous Coal Operators Assn. "This was one of the problems we had from (former president Tony) Boyle. For several years in the 60s, \$50-100 million of the welfare and retirement fund was deposited interest-free in the union's bank account in Washington, D.C. where it was just gathering dust."

The union also needs to hold firm on the royalties rate because it is currently paying the 180 striking miners and their dependents more than \$20,000 a week in strike benefits. Each family receives between \$100-150 a week depending on its size, the union spokesman said.

**IF THE BROOKSIDE** miners win their strike, the UMW's pension will provide a flat rate of \$150 a month for workers over the age of 55 with 20 years of service.

The SLU pension plan's benefits are less, but fund administrator Dallas Christian told *Business Insurance* that they would grow until SLU benefits matched the UMW's in about 10 years. "It's still a young fund," he explained. "It wasn't begun until October, 1970."

Under the SLU plan, retirement age is 62. Miners receive a minimum of \$75 a month after 10 years of work in the industry and three years under the pension plan. An alternate minimum for pension benefits is \$5 a month for each year of continuous service up to a maximum of 30 years. But because the pension plan is so new, the maximum pension a miner can now receive in the SLU is \$75.

According to the UMW spokesman, Brookside miners were unhappy with their lack of a pension while in the SLU, as well

as the prospect of a long wait before the fund could pay an adequate retirement benefit. "The Brookside miners say no one ever got a pension payment while in the SLU," he commented. Hospitalization benefits were also unreliable in the SLU, he added. "It pays \$1 a week for you into the plan and if there's enough money to go around they'll pay your hospital bill."

Eastover Mining's Mr. Yarborough said "hospitalization is about the same for both unions." But he could not be specific about the coverage. SLU has \$5,000 insurance for accidental death and dismemberment, and a widow and survivors benefit that equals what the miner would have received for a pension at the time of

his death, according to the union's Mr. Christian.

In medical coverage, the UMW "pays for everything but dental care and eye glasses," according to a union source. Although its medical benefits provide full hospitalization coverage, no disability or sickness benefits are yet available.

"**WE DON'T** have sick pay under the national union contract," the union spokesman explained. "We want 30 days a year when the contract comes up for renewal November 12."

Another issue in the strike centers around work safety. The miners reportedly complain that parts of the Brookside mine are unsafe due to a danger of ceiling

falls. They want to form a safety committee, provided by the UMW national contract. Whenever the workers believe the company is unresponsive to union safety demands, this committee could file complaints with the national Mine Enforcement Safety Administration.

"And if all else failed, they would have the right to close down the mine in cases of 'imminent danger,'" the union spokesman noted.

Neither side yet foresees an end to the strike. The UMW is determined to win, partly because union president Arnold Miller made a campaign pledge in last year's union elections that the UMW would outlast Eastover Mining. And the union knows the rest of East Kentucky's 20,000 miners are waiting to see whether the UMW has regained the power it lost during the Boyle years.

"I think the Brookside mine workers really have a loyalty to

the UMW," the union spokesman said. "They wouldn't have come to the union under the Boyle administration, thinking it would have been useless. Boyle wrote off Eastern Kentucky."

The Brookside miners fear that if they don't win, they may have lost any chance for another mining job in Harlan. "As far as the strikers go, the majority are right there on the picket line, or are in the area supporting the strike," the UMW spokesman noted.

Many of the picketers in Harlan are miners' wives, keeping non-union workers away from the mine and, according to one observer, "keeping the violence down." The community effort reminded one foundation-supported investigative panel of the Harlan County strike in the 1930s, when the UMW was first organizing.

"A lot of people on the panel said you could close your eyes and listen to the voices and think it was right out of the 30s." ■



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### OPIC report concludes it's 'realistic' to transfer risk to private sector

WASHINGTON—The Overseas Private Investment Corp. (OPIC) sent a report to Congress that concludes there are "realistic possibilities" of transferring much of the federal agency's \$5.6 billion political risk insurance portfolio to the private insurance and reinsurance sectors.

But, OPIC told Congress, the form and degree of the transfer have not been worked out, and, the report claims, more time and statutory authority are needed to

test various approaches of joint insurance underwriting.

Required by the legislation which created OPIC in 1971, the report comes in the wake of Senate passage of a bill to extend the agency's life until Dec. 31, 1976, and which directs OPIC to begin a "systematic transition" of its expropriation, inconvertibility and war risk coverages to private underwriters.

The House is expected to consider and pass similar legislation

soon.

OPIC and Lloyd's of London have already entered into a reinsurance agreement where Lloyd's now pays about 45% of any expropriation settlement up to \$40 million per country and \$120 million globally per year.

Lloyd's is committed to the present arrangement through 1976 and is currently marketing its own political risk coverages, but neither Lloyd's nor any other private insurer is now involved

in direct writing of OPIC risks.

"Private reinsurance of OPIC does not," the report claims, "provide a full test of the feasibility of transferring direct underwriting responsibilities and claims management in overseas investment insurance to the private sector or sharing these responsibilities and related financial liabilities between the government and private insurers."

"**THE PRIVATE** insurance industry operates under regulations which limit its capacity to cover U.S. overseas investments against political risks. Consequently, the industry will not accept large exposures in the unfamiliar field of political risk insurance unless the U.S. government provides reinsurance against large losses disproportionate to annual premium income," the report says.

"Private insurance companies also will not commit themselves to exposure over an extended

term of years in this unfamiliar field."

The report further claims that insurance actuaries who have examined OPIC's insurance program have "uniformly concluded" that past experience has not been sufficient to generate accurate projections of loss rates.

"Despite the 15-year history of substantial government operations in developing countries, the insurance program has not yet accumulated enough experience to permit actuarial projections of future losses," the report says. "In summary, the nature of OPIC's investment insurance business—its policy mandates and restrictions, the difficulty of projecting its long-term income, loss ratios and the potential for catastrophic losses—set real limits on the extent of its transfer to the private sector."

**BUT, DESPITE** these less-than-encouraging remarks, the report does outline some alternative methods of transferring some of OPIC's business to private insurers which would satisfy the private sector and protect existing coverages.

Last October, the OPIC advisory board approved in principle a plan that would work through an experimental joint underwriting association comprised of interested U.S. and foreign insurers. The proposed association would act both as a direct writer and a "fractional" reinsurer of OPIC's existing portfolio. During an initial three-year trial period, private participation would range from 25% to 50% of the association's liabilities and net income.

For a percentage fee, OPIC would reinsure the association's liabilities in excess of stated annual loss limits. War risks would not be insured by the association, leaving them to be insured or fully reinsured by OPIC.

Two specific methods of achieving the council-approved goals have now been put forth, but, the report warns, the worth of either program can only be tested through actual experience.

**ONE FORM OF** joint underwriting suggested would involve a parallel underwriting approach where private insurers would write expropriation and inconvertibility coverages for a standard portion of any new investment, and OPIC would cover the rest. For a price, OPIC would assure the continuation of full coverage for a longer term beyond the commitment of the private insurers, in the event that they decide not to continue with the program. OPIC would also provide excess reinsurance above agreed-upon annual loss limits. The private insurers would be required to cover any risk approved by OPIC "within pre-agreed guidelines."

Another proposal calls for a mutual insurance pool comprised of OPIC and the multi-national companies using OPIC's investment insurance services.

"This form of private participation would avoid two of the disadvantages of joint underwriting with private insurance companies: such a mutual would be able to insure war/insurrection risks, and it could make long-term commitments," the report says.

"OPIC has only recently begun to explore the mutual concept," the report says. "The prospect of ultimate financial gain in the form of premium rebates, which typically induces participation in a users insurance pool, is less predictable in the field of overseas investment insurance than in normal domestic coverages capable of actuarial projection." ■

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# 'False hope' stirred by Nixon plan for veterans' pension, VFW says

WASHINGTON—The commander-in-chief of the Veterans of Foreign Wars of the U.S. (VFW) has told the House veterans affairs committee that he and the more than two-million members of his organization are not at all excited about the Nixon administration's proposed reforms of the veterans' pension system.

In a Congressional message sent to Capitol Hill on the first

anniversary of American disengagement from Vietnam, Mr. Nixon outlined a proposal for a new system that would increase and equalize payments made to veterans and their widows and also tie benefits to a cost-of-living escalator.

**THE ADMINISTRATION'S** proposal would also redefine the "standard of need" now used to reduce benefits based on other

sources of income.

No definite legislative language has been drafted by the Veterans Administration (VA), but sources working on the bill told *Business Insurance* the new offsets will probably ban payment of veterans pensions to any single veteran earning more than \$1,800 per year.

"As far as we are concerned, the veterans' pension program is a need program," the VA source

said. "The new system will provide the greatest benefits to those with the greatest need."

Ray R. Soden, the leader of the VFW, told the House committee the proposed reforms are not what they seem to be.

"Unfortunately, there exists a sharp difference of opinion as to what constitutes 'need' in connection with the veterans' pension program," he said. "The VFW completely disagrees with the need concept embodied in the so-called VA pension reform proposal which was recommended to this committee by VA spokesman last year.

"It has been reported in the press," he said, "that the Presi-

dent has recommended an increase in pensions, when, in reality, the VA reform proposal would provide a modest increase for only a small number of veterans. We in the VFW are gravely distressed at this misleading publicity, which has given false hope to hundreds of thousands of veterans and their surviving widows throughout the nation.

**"IF THIS VA** pension reform proposal is approved by Congress, it will bar three-fourths of the veteran applicants for pensions in the future who otherwise would be qualified under current income standards."

Under the current program, single veterans earning more than \$300 per year have the maximum \$143 monthly pension reduced on a sliding scale. Persons in this category who earn between \$301 and \$800, for example, have their payments reduced by three cents per each dollar of income above \$800. Persons earning between \$2,501 and \$2,600 have their benefits reduced by eight cents per each dollar of income above \$2,500.

The current system does not include income earned by a veteran's wife in computing total annual income, but it does include 90% of any payments made through the Social Security system. The proposed system would count a spouse's income and would retain the Social Security offset.

"We are deeply distressed that veterans and widows of veterans have either lost or had their VA pensions cut because of Social Security increases," Mr. Soden said.

"It has long been the VFW position that veterans' pensions are wholly unrelated to Social Security and similar retirement income, and the latter should be disregarded in determining entitlement to a VA pension.

**"WE CONTINUE** to urge the Congress to disregard Social Security increases by increasing veterans' income limitations and rates each time Social Security payments are increased.

"It is our clear and unalterable position" Mr. Soden continued "that the veterans' pension program should be kept up to date by increases in both the rates and the income limitations so that when Social Security payments are increased, there will not be a corresponding decrease in veterans' pension payments.

"When the VFW speaks of a veteran 'in need' we do not mean that he is or must be a welfare case, as proposed by the VA pension reform," Mr. Soden said. "Such an interpretation would place the brand of shame on men who have proudly served their country in time of war, and we in the VFW will never accept any such degrading definition—by the VA or the federal government.

A VA source said the proposed legislation will be sent to Congress within a "few weeks." Hearings on the administration's bill are expected to be held this summer.

## Benefits improved

The Oregon Legislature in a recent special session approved and Gov. Tom McCall signed into law a bill which improves workmen's compensation benefits to those who have drawn benefits in the past. It also increases widows and orphans survival benefits for workmen's compensation to 50% of the average weekly wage and also stops the practice of deducting Social Security benefits from workmen's compensation death benefits.

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## Taxpayers may have to come to OPIC's aid

WASHINGTON—The U.S. Comptroller's office warned Congress that the Overseas Private Investment Corp. (OPIC) may have to seek supplementary funds from the taxpayers because claim settlements could be in excess of available reserves.

"We are not able to express an opinion on the adequacy of the amount reserved for losses OPIC may suffer as a result of its insurance and guarantee contracts," said Elmer B. Staats, comptroller-general.

The report, filed last month, is the annual review of OPIC's financial statements for fiscal year 1973, which ended last June.

The comptroller-general noted that while OPIC loss reserves totaled \$142.5 million last June 30, potential charges against the reserve totaled \$394.2 million.

**THE BULK OF** the possible deficit stems from two disputed insurance claims that derive from expropriations in Chile.

The Anaconda Co. is seeking \$154 million from OPIC for its nationalized Exotica mine in Chile. The International Telephone and Telegraph Corp., Sud America, is seeking \$92.5 million for its expropriated investments in the Chile Telephone Co.

OPIC has denied both claims and the cases are awaiting arbitration through the American

## Beck denies industry gain in health plan

BOSTON—It is "patent nonsense" that there are windfall profits to be made by the insurance industry in a national health insurance program, contends Robert Beck, president of Prudential Insurance Co.

Prudential and many other insurance companies were barely able to break-even financially by providing health protection to the more than 100-million privately insureds, he said.

Following several loss years, 1972 health insurance profits of the 20 largest U.S. insurance companies were only 1.35%, he noted. "Universal coverage to include the sick, indigent and poor risks would only worsen our position."

**THE PRIVATE** insurance industry is anxious to extend comprehensive health care, but to scrap the present insurance protection and start from scratch with a new national program would create a "bureaucratic swamp," Mr. Beck said.

The insurance industry has to play a vital role in national health insurance, otherwise the "result will be ever-escalating costs and taxes for every American and a gargantuan bureaucracy bent on perpetuating only itself," he explained.

A national health insurance program is the only way quality medical care can reach every citizen, Mr. Beck said. "The only question remaining is exactly how it is best done. In any event, national health insurance is coming, and quickly," he predicted.

So, the insurance industry must revise its thinking on the delivery of health care and begin to "depend more on the pre-paid, group practice approach of the health maintenance organization." ■

Arbitration Assn.

Fourteen other claims were pending before OPIC at the end of fiscal 1973 with a total compensation of \$28.2 million, including \$23.2 million linked to other Chilean expropriations.

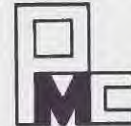
OPIC regulations require that expropriation claims are not payable until at least one year after the property has been seized. OPIC then has six additional months to process the claim and make its determination.

An OPIC official declined to reveal what companies have claims pending with the agency, which offers expropriation, inconvertibility and war risk coverages to companies seeking to invest in developing countries. ■

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## Eight carriers in new insurance package for non-nuclear utilities

NEW YORK—Non-nuclear electric and gas utilities may be able to save some energy in their pursuit of insurance with a new coverage package underwritten by eight major insurance companies.

"In the last few years there's been great difficulty in getting sufficient insurance, and in getting specific types of insurance," explained James C. Higgins, executive vp of Marsh & McLennan, broker for the new utilities package. "The answer to all these needs can be found in the standard insurance framework without self-insurance or self-funding."

Basic coverage for property and liability risks are usually found without too much diffi-

culty, Mr. Higgins noted. But special coverage for testing, transmission and lines, earthquake and flood, directors and officers liability, comprehensive crime and aviation liability is sometimes harder to find.

**AND THE COST** of coverage for larger non-nuclear utilities tends to be expensive, said another vp, A. Henry Alberich. "A large utility could easily be spending several million a year on premiums depending upon the deductibles he's willing to assume and the scope of the coverage. In any case, you're talking about six and seven figures when you're talking about coverage for a moderate or large facility.

"We've designed a very broad coverage in a subscription-type arrangement," Mr. Higgins said. The eight carriers do not form a pool, but instead comprise a loosely-knit group of insurers who volunteer to underwrite risks for the utilities on a policy-by-policy basis.

Carrier participants in the utilities package include: Aetna Casualty & Surety Co., American Home Assurance Co., Chubb/Pacific Indemnity group, Commercial Union Assurance Cos., CNA, Hartford Steam Boiler Inspection and Insurance Co., Home Insurance Co., and The Travelers Insurance Co.

"Not all of the eight are going to participate in every risk," Mr.

Higgins pointed out. "If a utility doesn't qualify for the package or the limits, in that situation we're not going to shove this down the throats of the carriers."

Mr. Alberich added that the odds are good that any interested utility will be covered by the group of carriers. He noted that the package was arranged for large utilities, but smaller companies could also buy similar coverage.

**UNDER THE REGULAR** package, limits are \$100 million for property coverage, \$50 million for liability, \$35 million for boiler and machinery protection, \$20 million for D&O coverage, and \$5 million for crime insurance. Deductibles for most of the property coverages are usually \$100,000, but these are subject to agreement.

"These are not absolute limits," Mr. Higgins noted. "If they want more coverage we can get them

more." The rates will vary depending on the utility's particular size, risks and experience. "They may not necessarily be cheap, but we do hope to have broader coverage at competitive rates," he said.

One advantage to an insurance package, Mr. Alberich commented, is the elimination of joint loss squabbling. Where a utility suffers different losses in a single accident, independent carriers may argue about who actually covers what portions of the damage.

But in a subscription-type insurance package, the participating carriers have a pre-arranged agreement about any shared losses.

Another advantage for new utilities insured by the package's all-risk builders and testing protection is the elimination of coverage gaps while the facility is being built. "There's no question about whether you're covered between the time the builders risk leaves off and the regular permanent coverage begins," Mr. Alberich explained.

**"NO UTILITIES HAVE** yet purchased the insurance package," Mr. Higgins said, but he added that he thought it would be well-received by the industry. "We have several utilities right now in the process of collecting underwriting information and passing it on to the carriers. We expect very shortly to issue the first policy."

The package does not apply at all to nuclear utilities. But Mr. Higgins told *Business Insurance* that he believes nuclear risks have been adequately explored and "the coverage per facility is adequate. There are 10 years of work from an insurance standpoint put into this area," he noted.

Mr. Alberich expressed his belief that an accident in a nuclear generating plant would not put an end to the nuclear insurance market. "It wouldn't have any serious effect," he commented. "The insurance industry has been building up adequate reserves, and I wouldn't look for any scurrying around or deserting of the market due to one incident."

**MR. HIGGINS** said that the insurance market "could absorb a serious singular claim. But if there were a chain of these accidents it would be a horse of a different color."

Meanwhile, the energy crisis will not cause panicked building of nuclear utilities with increased possibilities of a serious accident," Mr. Higgins said. "Whatever nuclear powerplants are being built have been on the drawing boards for 5-10 years and they are very specifically governed as to their use of materials. There's no way they could rush into the building of these nuclear facilities." ■

### OSHA inspections

Job safety and health inspections climbed to an average of 1,470 a week in January, according to the Occupational Safety and Health Administration (OSHA). This was more than double the weekly average in January, 1973. The agency proposed penalties of \$475,682, based on 3,780 citations alleging 21,531 violations, from 5,882 inspections during the month.

Forty of the violations were considered to represent willful, repeated, imminent danger and suggested fines for that area totaled \$55,630. OSHA reported it collected fines totaling \$353,329 in January. This figure is up from \$177,647 for the same period a year ago.

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## Total merger of N.Y. Blues predicted For June, 1974

NEW YORK—Blue Shield of Greater New York, this metropolitan area's largest insurer of doctor bills, predicted a total merger with Blue Cross, the area's major hospitalization insurer, will be completed by June.

The total merger was announced by the two health insurance organizations just two months after Blue Shield tentatively indicated to the New York state insurance department that a partial consolidation of administrative functions was under consideration.

Committees from the two insurers have been meeting regularly since March 5 in efforts to draw up a plan acceptable to the state insurance department and the state board of social welfare, a spokeswoman said, although the merger plan has not yet been finalized.

**IF THE PROPOSED** merger succeeds, it is expected to make Blue Shield more consumer-conscious, because it would be subject to a Blue Cross rule which limits the number of doctors allowed on the board of directors. The Blue Shield board is presently made up almost entirely of doctors.

The merger question arose after an insurance department suit against Blue Shield and its 23 directors. The organization is charged with five kinds of unfair claims settlement practices as a result of 2,300 recent complaints by clients. The hearing on the charges was originally set for

## Drug firm not guilty in 'pill' case

MILWAUKEE, WI.—The Pennsylvania supreme court ruled in favor of Ortho Pharmaceutical Corp. in a drug liability case because the plaintiff failed to establish that one of the company's drugs was the "most likely cause" of her condition, according to the Defense Research Institute here.

The case, the institute said, defined the duty of a drug manufacturer as measured by later-acquired knowledge. The plaintiff alleged that Ortho's contraceptive pills had given her a thrombophlebitic condition but could not prove, by reasonable medical certainty, that the drug had been the most likely cause.

**THE COURT**, in ruling for the defendant in the case (Leibowitz vs. Ortho Pharmaceutical Corp.) said, "In no reported cases has a court imposed liability on a prescription drug manufacturer on the basis of facts or discoveries made subsequent to the date a particular cause of action accrued . . ."

The court said it was desirable for drugs of proven value to be sold even though these medications contained known or suspected risks. Courts have uniformly held that a "drug, properly tested, labeled with appropriate warnings, approved by the Food & Drug Administration and marketed properly under federal regulation, is, as a matter of law, a reasonably safe product," the ruling noted. ■

Jan. 11 but was postponed until March 11 when the merger was tentatively discussed. On March 11, it was further postponed until June 10.

Blue Shield representatives at the hearing said they expected the merger might be completed by June.

An insurance department spokeswoman said the merger question will postpone a departmental ruling on Blue Shield's application for 20% rate increase on some executive health plans representing about one-sixth of its community-rated customers.

The merger is not the first in the U.S. involving Blue Cross and Blue Shield, but it is believed to be the largest ever. Last year, New York Blue Cross handled \$1.3 billion in business, including \$547 million in Medicare funds. New York Blue Shield handled about \$425 million, including about \$250 million in Medicare funds. ■

## HEW asks doctors to justify choice of drugs

WASHINGTON—The Department of Health, Education & Welfare disclosed that physicians who prescribe trade name medicine for Medicare and Medicaid patients will be required to submit a written justification to the department for the choice of remedies.

At a meeting of the Senate small business subcommittee, Assistant Health Secretary Charles C. Edwards revealed that HEW will reimburse only at the maximum price allowed for drugs selling under generic names if the medical explanation is not provided.

Last December, when HEW announced that it would do something with trade name drugs, Sec-

retary Caspar Weinberger estimated that a policy like this would save about \$28 million annually under Medicaid alone.

**THE DRUG COMPANIES**, which are against such a policy, feel that such controls will lead to ever greater involvement of the government in health financing as plans for a national health insurance plan advance.

Sen. Gaylord Nelson, chairman of the small business subcommittee, pointed out that costs for trade name drugs could be as much as 20 times those for generic name drugs. As an example, he pointed to chlorpheniramine, an antihistamine.

Under its generic name, the

Senator said, 1,000 four-milligram tablets could be sold to pharmacist for as little as \$1.05. Schering Corp., under the brand name Chlor-Trimeton, charges \$21.66 for the same amount.

Dr. Edwards said HEW would go ahead with the program of limiting reimbursements to the lowest prices at which drugs are nationally available unless a difference in therapeutic effect were clearly demonstrated. ■

## Agent clinics

The Independent Mutual Agents of New England will hold a series of clinics in Rhode Island dealing exclusively with the Metropolitan Insurance Co.'s entrance into the property-casualty field. The organization's officers predict that on May 1 more than 1,000 Metropolitan agents will begin selling automobile and homeowners insurance in Rhode Island.



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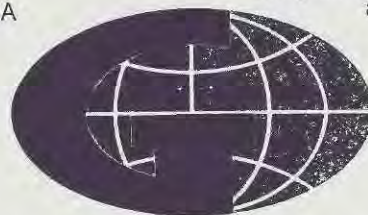
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## Projected future income critical to settlements

HOUSTON—Projections of an accident victim's future earnings, a critical consideration for attorneys and insurance companies, can be calculated by considering the effects of the victim's age, inflation and national economic growth, according to a noted economist.

Dr. John R. Henderson, professor of economics at Michigan State University, plotted changes in the earning capacity of American males at the mid-winter meeting of the Federation of Insurance Counsel.

Dr. Henderson said from 1959 to 1969 the average earnings of men between 25 and 34 years of age increased 132%. Fifty-four percent of that increase was due to the increase in age and experi-

ence; 25.8% to inflation; and 52% to economic growth, he noted.

For men 35 to 44 years old, the increase in earnings totaled 76.9%; 22.6 attributable to age and experience; 25.8 to inflation; and 28.5 to economic growth. And finally, the earnings of men between the ages of 45 and 54 increased 41.7%. There was a slight decrease in earnings because of their older age, but an inflationary rate of 25.8 and a 17.6% boost in economic growth nevertheless helped increase their salaries.

**THE IMPACT OF** inflation and income taxes on jury awards was also discussed by a Dallas lawyer, Royal H. Brin Jr., of Strasburger, Price, Kelton, Martin and Unis.

Projections of future inflation are often used by claimants to further their demands for higher awards, he said. Projected increases in income taxes are used by defendants in an attempt to reduce awards, since income taxes are not payable on damages, he further stated.

"I would think that there is more certainty as to the burden of income taxation in the future than as to inflation," Mr. Brin said, "at least continued income taxation of at least the present level, because it is statutory and the trend has certainly always been upward."

He pointed out that although the courts have divided over how much weight to give either projected inflation or taxes, "it would behoove the defense to have available expert testimony to establish the income tax projections and to offset the probable offering of overly-inflated projections of inflation offered on behalf of the claimants." ■

## Union blasts Nixon health insurance bill

WASHINGTON, D.C.—The United Auto Workers last week charged that the Nixon administration's proposed health insurance program would increase the insurance industry's income without alleviating health care problems.

"Fully 15% of all the money collected will never reach the health care system. It will be retained by the insurers for overhead costs and profits," said Melvin Glasser, director of the UAW Social Security dept. at a hearing of the subcommittee on health of the elderly of the U.S. Senate's special committee on aging.

He added that the administration's proposed comprehensive health insurance program "will double the annual income of the

\$26 billion insurance industry within a few years."

One group of retired people termed the "early aged" may be denied adequate coverage under the administration's health insurance program, Mr. Glasser noted. He defined the early aged as workers who retire before the age of 65. This group is growing due in part to the UAW's 30-and-out retirement plan won last year in contracts with major auto manufacturers.

**HE TOLD THE** subcommittee to "look carefully at the effect of proposals on the early aged retired who, unless they are totally disabled, are not eligible for Medicare, do not usually have the continuation of their employer-paid insurance . . . and even when they are eligible (for insurance) are forced to pay premiums frequently beyond their financial means."

The administration's proposed replacement of Medicaid by an assisted health insurance plan would "substantially increase" medical costs for all elderly persons, Mr. Glasser added.

Compared to Medicare, the administration's program would cut back on home health services, provide less post-hospital extended care, and deny preventive health services like vision care and hearing benefits, Mr. Glasser charged.

"Millions of poor people likely would refuse to come under coverage of the Nixon-proposed Assisted health insurance plan program because they don't have the money to pay for participation or don't wish to subject themselves to demeaning means tests."

The UAW has announced its official support of the Kennedy-Griffiths health insurance bill. ■

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## Safety rule closes 500 coal mines

WASHINGTON, D.C.—An estimated 500 coal mines were forced to close March 30 for failing to comply with federal Mine Safety and Enforcement Administration regulations on electrical equipment.

About 5% of the nation's coal production, 30 million tons a year, are mined by these operations, usually small non-union mines. Officials estimate that about 5,000 miners lost their jobs when the mines were forced to close.

**A BUREAU OF MINES** spokesman said the safety standards apply to electrical equipment used in the mining operations. When the federal Coal Mine Health and Safety Act was passed in 1969, it required all electrical equipment to be non-sparking. The regulation was designed to prevent explosions of methane gas, which sometimes builds up in mine passages.

Many mines were allowed up to four years to comply with the 1969 regulation. The 500 mines that failed to convert to non-sparking equipment are mostly located in Eastern Kentucky, Southwest Virginia, and Southern West Virginia, according to the spokesman.

The Federal Energy Office reportedly opposed the closings because of the overall cutback in national coal production. ■

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### Here's the point.

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## business insurance

## PERSPECTIVE

# Crime risk problems are handled most effectively by trained crime prevention unit

By SIDNEY A. LYLE  
Crime prevention director  
Odessa, Texas, Police department

MANAGEMENT SHOULD APPLY the definition of "crime prevention" to risk management. In so doing, business leaders will have drawn a definable line between loss probability and necessary risk. The task of risk management would then be identified as "the anticipation, the recognition, and appraisal of a risk problem and the initiation of some action to remove or reduce that risk."

Care should be taken when initiating actions to remove or reduce a risk problem; that action is often based on an emotional reaction to a conceived or contrived danger. Such action can be a real headache and sometimes cost more to retract than would have been incurred if the loss was realized. Supervising this type of emotional response might best be termed

crisis management. Poor crisis management often results in the unnecessary acquisition of sophisticated alarms, safes that are not needed, and other security equipment.

Certainly there is a need for security equipment and procedures, but that need must be rationally determined by the value of the items to be protected and the price placed on peace of mind. Therefore, risk management as it relates to criminality should incorporate three distinctive concepts: reasonable protection consistent with cost risk factors; application of risk management alternatives to attain a balance between pure risk and economic rationale; and physical and procedural applications.

Proper risk management decisions should be made with an understanding of the consequences and alternatives to those decisions. With the current fast pace of business activity today, it is close to impossible for managers and executives to

attain any degree of expertise in the field of crime risk management.

Therefore, it becomes necessary for management to call upon outside assistance in order to better understand what crime risk management is all about.

Professional crime risk counseling is available from many law enforcement agencies which have ventured into the field of crime prevention. The idea of a crime prevention unit is an English innovation and was introduced into the United States only a few years ago. Therefore, policing agencies are just now beginning to accept the idea that they can perform an invaluable service to the community by helping to prevent crime instead of applying all of its resources to solving the crime after it occurs.

**THE NATIONAL CRIME** Prevention Institute at the University of Louisville in Louisville, Kentucky has trained crime prevention officers from Beaumont, Texas on the Gulf Coast, to Calgary, Alberta, Canada to the North, and from the Pacific coast to upper New England. Across the continent over 200 crime prevention units are lending their expertise and experience to anyone in the community who has questions about security, or a security problem. The difference between the expert officer and the security salesman is that the officer is not selling anything. His salary does not depend upon your acceptance of his ideas or suggestions, and he does not endorse a company or brand name product. In short, the crime prevention unit is an active part of local police services and one which is ready to save your money.

However, this unique team of experts will not come knocking at your door uninvited. You must ask for the free service in

order to receive its benefits for your business.

The crime prevention officer is the best professional resource for security counseling. He understands the problems of your business or industry as it relates to criminal activity. In all cases, he is an experienced police officer with proven ability. He can advise you how the thief or burglar will most likely enter your business and what he will probably take once entry is gained. The officer can help identify existing crime risk problems and make reasonable suggestions to firm up security and thus lessen the risk of loss.

**THE CRIME PREVENTION** officer has become a familiar individual to risk management personnel. While this officer is an expert at reducing existing risk, he also serves as technical advisor to designers, architects, and builders. By taking part during the planning stages, the officer is able to eliminate many problems of crime risk before they materialize.

Crime prevention has been shown to be effective. There has been a marked drop in most all categories of crime in every city that utilizes a formal crime prevention unit. In Texas, the governor's crime prevention program is anticipated to reduce burglary by 18% during 1974, and 32% by the end of 1975.

While crime prevention has prevented crime, reduced losses and increased profits, it is not a magic cure-all for the problems related to crime. It does, however, suggest a positive relationship between realistic security and the criminal risk.

Leaders of the crime prevention movement in America met with their European counterparts in London during early April. The International Conference, the first of its kind, was held to exchange ideas and procedures which can be of help to the business and company executive, as well as the everyday layman.

One facet which merits close scrutiny is the reduction of insurance premiums for those commercial and manufacturing firms who comply with reasonable security safeguards as outlined by the crime prevention officers. Most European countries require the insurance company to lower premium rates if the insured goes beyond basic security measures.

**IN EUROPE IT IS** felt that a business that practices good risk management is less likely to suffer a loss than the business without risk management activities. Therefore, if the risk of loss is less, it only follows that the cost of insurance for loss protection should also be less. In effect, this results in a reward for good crime risk management.

Crime prevention officers are trying to gain the same benefits for American business as there is for business of Western and Southern Europe. There are in the United States, several insurance companies more innovative than their competitors. But by and large they fall far short of their European brothers in the area of crime risk insurance. For the most part, American insurance companies are not openly interested in new ideas.

Information about crime risk insurance is only one of many areas in which the crime prevention officer can help risk management. Whatever the problem—robbery, theft, burglary, embezzlement, employe theft, hardware or procedural security—crime prevention officers are quickly becoming an available technical resource for risk managers.

Crime risk management is everybody's business. ■

Sergeant Lyle is an instructor in the police science department at Odessa College, Odessa, Tx. in addition to his responsibilities as director of crime prevention for the city's police department. He became a police officer in 1964 and later became head of the juvenile division. He is a graduate of the National Crime Prevention Institute and a holder of the advanced certificate for peace officers.



He is a graduate of the National Crime Prevention Institute and a holder of the advanced certificate for peace officers.

# Recent court ruling contradicts precedents for asset valuation

"Others say the only thing required is for actual cash value to be defined in the contract. This may have been possible when insurance policies were introduced . . ."



By JOHN C. LITCHER  
VP, American Appraisal Co. Inc.  
Milwaukee, Wisc.

SOMETHING IS HAPPENING to my world. I am certainly disturbed and perhaps even frustrated but, on rather deep analysis, I'm not sure if this is just a puff of wind as in the past, or if this wind is a gale.

I refer to the world of three words so

closely allied to the property insurance contract: actual cash value.

The recent California supreme court decision in The Case of Jefferson Insurance Co. vs. Fong Hong May, plus the consequent publicity, prompts my writing.

This decision contradicts the valuation principles of rulings which stood for the better part of this century. The case (3 Cal. 3rd. 398, 90 Cal. Rptr. 608, 475 P 2d. 880) involved a partial loss to a hotel in Oakland. The court held that the insurer had to pay the claim for total replacement cost (instead of the usual replacement less depreciation standard in the insurance industry) of the hotel.

The hotel's owner had a \$45,000 insurance policy with a 70% coinsurance clause. Fair market value of the hotel was held to be \$65,000, excluding value of the land), cost of replacement was \$400,000 and replacement cost less depreciation was \$170,000.

The underwriter said actual cash value was equal to cost of replacement less depreciation, and contended the owner had not complied with the coinsurance requirement of the policy. Thus, the carrier offered to pay \$10,154 of the estimated \$24,-

102 loss. The insured refused to accept.

The court ruled that if actual cash value had been intended to mean replacement cost less depreciation, the legislature would not have worded the standard policy "the cost to . . . replace the property."

If one were to accept this decision as the basis for defining actual cash value, all previous practice would be tossed out the window and fair market value would become the sole definition for insurance. Now this appears to me a ridiculous sweeping aside of logic and reason.

**I HAVE DISCUSSED** valuation concepts with loss and underwriting managers of every major insurance company in this country, and had countless interviews on this topic with executives of major adjusting firms. I have reviewed as many as 4,000 insurance valuation reports annually with special stress on depreciation. Further, I have handled all queries about insurance depreciation personally, by telephone, or by correspondence on this same number of reports.

On behalf of our clients, I have resolved the valuation aspect of losses, some

Continued on page 40

## business insurance

# PERSPECTIVE

## Valuation . . .

Continued from preceding page

100 each year. Many of these were routine, of course, requiring only telephone or letter contact, but 10 to 20 losses each year were substantial, individually ranging as high as \$15 million. Such situations indeed proved educational, as various approaches to value had to be looked into.

Of course it would be nice for both the buyer and the seller, the insured and the insurer, to have absolute foreknowledge of the premium rightly to be paid and the amount to be received for a loss, after proof that damage or destruction was covered under terms of the contract. Such a utopia probably held true for both parties back at the beginning when the world was stable, but the coming of the industrial revolution fostered constant technical change. As new ways of doing things were developed, machinery rapidly became obsolete and a used market developed affecting actual cash value. The customary basis had always been replacement (reproduction) cost less depreciation, but now when a destroyed machine could be replaced by one purchased in the used market, a new factor was introduced—that of either paying a higher premium or receiving more for a loss than would be just.

**OTHERS SAY THE** only thing required is for actual cash value to be defined in the contract. This may have been possible when insurance policies were introduced and before they were locked into statutory terminology, but to achieve legislative, judicial, and executive agreement on any wording changes in statutory policies appears highly unlikely. Beyond that, however, I question the advisability of attempting to hogtie actual cash value. Replacement cost or cost of reproduction is readily defined, but properties not only deteriorate between insurance purchase and a loss, they change in other ways as well. Actual cash value or any other term used must have a flexible enough interpretation to provide a settlement that is equitable to both parties to the contract.

The California case has led to the erroneous idea that fair market value is the one true value for all purposes. The inference is that insurable value is to be based on an exchange price using sale comparatives of reasonably similar property, or perhaps on a capitalized income and profit stream and a fair market study of the land alone. The difference between the two is allocated to the improvement, whether it is a hotel that costs a million dollars to build or a gasoline station that costs \$50,000.

As I perceive it, an average fair market value would be something like 50% of cost of reproduction less physical depreciation so if fair market value became the universally accepted practice, the result to carriers could be 50% less in total premiums. Yet carriers would be expected to pay partial loss repairs which could easily equal total insurance carried, most often without a coinsurance contribution from the insured. If this situation ever became a reality, I prophesy exclusive use of replacement cost policies or the carrier's flight from such a jurisdiction.

**I AM ASSOCIATED** with appraisers who appear to lean in this direction, but their only attention to insurance is when their premium falls due (usually at the wrong time of year). If put to the test of their own property loss, these fair market value advocates might quickly return to the haven offered by cost of reproduction less depreciation.

Three factors in the insurance valuation process contribute one way or another toward this need for flexibility:

- replacement cost (synonymous in the insurance industry with cost of reproduction);
- depreciation (deterioration and obsolescence);
- coinsurance.

The insurance contract limits recovery to "like kind and quality" and one cannot expect to collect new for old. Thus,

**"Three of the four court cases which are often cited as valuation precedents hold that all facts must be considered in determining actual cash value, still recognizing cost of reproduction less depreciation is the conventional basis."**

knowledge of replacement cost is vital so that depreciation can be observed and estimated to account for lost life of the property.

The two components of depreciation are deterioration which measures wear and tear, and functional obsolescence, which measures loss of utility, excess construction, etc. when the lost property is compared with its current replacement counterpart. Deterioration is not much of a problem to determine, but obsolescence is somewhat theoretical and a grey area that comes in for pro and con viewpoints when the rare court cases present themselves. (I am also aware of economic obsolescence, but do not consider it a major factor in my insurance world.)

Coinsurance, purchased for the rate credit, is the real basis for controversy in debatable cases. Suppose insurance is based on a bargain purchase, an estate appraised price, or purchase of a whole business and a vague allocation of some portion of the purchase price to the buildings and contents. In such cases, the determined value is far below cost of reproduction less depreciation. Now suppose a partial loss. The insurer, who sees a repair bill of perhaps 10% of the property total 50% of the insurance carried, promptly yells "foul" and inflicts the coinsurance noncompliance penalty which could easily be 50% of the repair bill.

**NOW IT'S THE INSURED'S** turn to cry "foul" by countering that the property is worth only what was paid for it or he suggests some other measure contrary to the age-old cost approach principle. If he can make this stick, he will probably collect his full repair loss less existing depreciation, because then he would be within coinsurance limits. If not, he may settle for something less and the carrier will pay more. If no one is willing to give, a lawsuit may ensue. The result—one happy litigant, one unhappy—or with the cost of litigation, particularly with Supreme Court prospects, both litigants may be unhappy.

Three of the four court cases which are often cited as valuation precedents hold that all facts must be considered in determining actual cash value, still recognizing cost of reproduction less depreciation is the conventional basis. In the fourth case, however, the opinion appears to intimate that the only time that cost of reproduction less depreciation may be used as a yardstick in California is when by coincidence it is synonymous with fair market value.

This decision should affect California only, and we probably can expect an increase in litigation there. But fires are occurring every day in California, probably at a similar rate as in the rest of the country, yet since this decision, losses are still being paid on the cost approach basis. Further, no logjam brought about by this unusual decision is evident in California courts.

Certainly any controversy does not preclude appraisals on a fair market value

basis even when they may be used in fire loss proceedings. However, appraisers would be ill-advised not to qualify their reports as fair market value immediately before the loss, and not intended as an instrument for determining loss.

Unusual claims will continue to arise both in California and elsewhere; the bargain purchase, for instance, usually a

with a 10 cents annual net rate per hundred.

The owner could insure for 80% of \$200,000 or \$160,000, at an annual premium of \$160, and be assured of collecting that amount on a total loss, but he could be in trouble on a partial loss since the insurance requirement for 80% of \$600,000 would be \$480,000. Let's see what might happen. A 5% loss on a \$1,000,000 cost of reproduction building is not unusual nor would it be surprising for repairs on such loss to cost 10% or \$100,000 as repairs are often double original cost. With \$160,000 insurance on \$480,000 assumed actual cash value, he would then be entitled to one-third of the \$100,000 repairs or \$33,333 and his personal loss on repairs would be \$66,667. (We are ignoring depreciation on repairs in this example, but be assured it would be present.)

On the other hand, the owner could buy \$480,000 of insurance (80% of \$600,000) at an annual premium of \$480. The repair loss would then be 100% paid and recovery would be \$66,667 greater. However, if the loss were total and fair market value rather than the cost approach were applied, then recovery would be the same, although the premium was \$320 higher.

Which would one rather lose—\$66,667 or \$320—particularly when statistics show that about 95% of all losses are below \$1,000 and chances of a total loss are indeed rare?

*John C. Litcher joined The American Appraisal Company Inc. in 1954 as manager of the insurance department. He has been in the insurance industry for 43 years ranging from nine years as a local and general agent and broker, 15 years with a major insurance company serving in branch and home offices with positions from field representative, head underwriter, assistant branch manager to agency supervisor and currently as manager of the insurance and continuous service division of American Appraisal.*

marginal property, where a decision will have to be made whether to base insurable value on the bargain price (assuming that a carrier can be convinced to go along). The problem will be the repair of partial loss, because such buyers are usually convinced that other bargain purchases are available if a total loss occurs. One solution would be to do without coinsurance, but such protection is not that easy to arrange on marginal property.

**THE ALTERNATE CHOICE** would be to insure on the conventional basis which would take care of the partial loss, but could present a problem on total loss.

Assume a \$1 million dollar cost of reproduction for a building with 40% physical depreciation. Ignoring possible policy exclusions, actual cash value on a cost approach basis would then be \$600,000. Further, assume a bargain purchase of \$250,000, \$50,000 for land and \$200,000 for the building. Let's also assume the \$200,000 represents fair market value of the building (although this obviously would not always be true) and 80% coinsurance

## RISK MANAGEMENT NOTES

# Risk managers should study all major risk-related costs

By WARREN, McVEIGH, GRIFFIN & HUNTINGTON  
risk management consultants  
San Francisco—Newport Beach

**I**N HIS BOOK *Managing for Results*, Peter Drucker states there are no profit centers within business organizations; only cost centers. The only thing one can say about any business activity, whether engineering or selling, manufacturing or accounting, is that it consumes efforts, incurs costs, and creates risks. Whether the activity is profitable is another matter. Some organizations look upon their sales people as the profit makers. This may be an erroneous viewpoint, as the ability to produce a product which meets market acceptance may be much more important than the caliber of the salesmen in the field.

If we accept the premise that there are only cost centers within any business organization, the importance of risk management is more clearly perceived. In many large organizations, risk management costs add up to a substantial portion of the operating budget. Although insurance premiums are tangible and highly

visible, other costs may far exceed the amount paid out for insurance. These include uninsured losses, expenditures for loss prevention efforts, claim handling costs, and all of the other expenses involved in the administration of these activities. When all of these costs are analyzed and added up, we often find that total risk management costs amount to several times the insurance premiums alone.

**TREATMENT OF EACH** major cost point as a separate problem overlooks the fact that an analysis of cost points will always bring out that costs are a system.

The relationship of risk-related costs to each other, therefore, must be clearly understood. Exerting inordinate efforts to control and reduce costs in one area at the expense of costs and effectiveness in another area can often produce higher overall costs.

The idea is to find areas where trade-offs will produce desirable results. In other words, it is often advantageous to forego apparent cost advantages in one area in order to obtain larger cost advantages in other areas and thereby significantly lower the total costs of the entire risk management process.



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# Prudential will stay in profitable P & L field

LONDON—Despite heavy losses in recent years, Prudential Insurance Co. of America has found the property-casualty field exceptionally profitable to the tune of some \$8 million profit so far.

And Prudential aims to stay in

this and other casualty fields despite gloomy predictions from some insurers that losses are bound to be disastrous if rates get too low.

This disclosure came from Donald S. MacNaughton Pruden-

tial's top official, who spoke at the world insurance conference here.

"We're in business long term and don't mean to pull out," asserted Mr. MacNaughton, chairman and chief executive officer of Prudential, reviewing his company's interest in property and casualty insurance.

**HE SAID PRUDENTIAL'S** reinsurance division expects to reach premium income of \$35 million this year. This will include more than \$5 million business from foreign sources.

Backing the decision to use some of its \$35 billion in assets as a major life insurance writer for wider fields, Mr. MacNaughton told the conference:

"Three years ago Prudential entered the property, casualty

and reinsurance markets for the first time. Because there may be some misconceptions concerning the role played by large American mutual life companies such as Prudential in these markets, let me describe what we've done and why.

"We began with personal lines insurance and we're writing homeowners, auto and personal catastrophe policies. We entered the business for several reasons. A primary reason, of course, is that we expect to operate profitably and believe that the business will be a good investment for our policyholders whose funds have been used to capitalize the venture.

"Also we believe our overall marketing effort is enhanced by enabling our salesmen to offer a more complete line of insurance products. This is the trend of business and helps their productivity and imposes their incomes.

"After our entry into the property and casualty business we became interested in general reinsurance and established Prudential Reinsurance Co. We see the opportunity to run this as a profitable business.

"**WE'RE AWARE** that some in the industry have questioned the timing of our entry into the general reinsurance field in view of the fact that presently there appears to be adequate capacity in many areas.

"Our response to this is to reiterate that we are in this business for the long term. We believe we can make a significant contribution as the demand for worldwide capacity rises with the advent of supertankers, nuclear power

plants, product liability cover, and so on."

Dealing with the interest Prudential has in aviation risks, Mr. MacNaughton said:

"This began five years ago just before the first 747's were due to go into service. There was some uncertainty about arranging the necessary coverage because of the question of capacity in the insurance markets which had provided aviation cover in the past.

"**IT SEEMED THAT** the insurance capacity of U.S. life companies might be made available. As with general reinsurance, an important question was concern over the soundness of the venture for life insurance policyholders. Airline reinsurance is characterized by large and irregularly-occurring claims. But we are convinced the business is sufficiently stable that over the long run we can reasonably count on a profit.

"The true test of our success in the business will take a long time to emerge, but we have so far registered an \$8 million profit. Of course, the amount of capacity committed to aviation reinsurance must be reasonable in relation to the surplus of the company. Prudential has limited its aviation insurance capacity to about one percent of the statement surplus.

"In the commercial and aviation fields we have limited ourselves to reinsurance. This reflects a reluctance on our part to build up an additional body of technicians to duplicate existing services, but does not suggest any lack of confidence in our ability to underwrite large risks successfully."

## AFL-CIO suing OSHA over state safety plans

WASHINGTON—The AFL-CIO is suing to force the Occupational Safety and Health Administration (OSHA) to withdraw what it says are illegal approvals of health and safety programs in 25 states covering 63% of the United States workforce.

The suit, filed in federal district court here last month, also seeks an injunction forbidding OSHA to certify any other state programs that do not comply with federal law.

**THE STATE PROGRAMS**, according to the AFL-CIO, do not meet federal OSHA requirements and represent "an abdication of federal enforcement responsibility to the states."

The suit was filed on behalf of the AFL-CIO, its industrial union department and the Illinois State Federation of Labor and Congress of Industrial Organizations in Chicago.

Named as defendants in the suit were secretary of labor Peter J. Brennan and John H. Stender, assistant secretary of labor for OSHA.

AFL-CIO president George Meany, in a statement issued after the suit was filed, said, "This action demonstrates labor's concern that the secretary of labor is dissipating hard-won gains labor achieved through passage of OSHA by permitting the states—whose failure to safeguard workers' interests in occupational safety and health led to the federal law—to regain jurisdiction without regard to the requirements of the act."

"The arbitrary refusal by the

assistant secretary of labor of the request of the Illinois State Federation for local hearings typifies the Labor department's single-minded desire to allow the states to take over OSHA without providing adequate protection for the workers," Mr. Meany said.

"**FOR THE PAST** two years, the department of Labor has been approving state plans which are merely unsecured promissory notes of future performance," Mr. Meany charged. "Even on paper these plans are inadequate.

"They fail to provide development and enforcement of standards at least as effective as the federal law. They fail to provide necessary skilled workers to inspect and enforce, or necessary funds to administer the programs," Mr. Meany said.

"In short, we believe the Labor department's approval of these state plans is illegal," he said.

An OSHA spokesman denied the charges in the suit and told *Business Insurance*, "We're not in the business of approving state plans that don't comply with the provisions of the act."

The spokesman said the Illinois plan, which has received nearly \$1.4 million in federal money, was approved last November after OSHA first solicited public comment beginning in January 1973.

The Illinois plan was the twentieth state plan approved by the OSHA staff.

The suit is pending before U.S. Judge John L. Smith in Washington. No date has been set for a hearing, but AFL-CIO officials hope for a ruling this month. ■



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**EDGARS CLARK**, Vice President and Director of Risk Planning Group, Inc. Wharton School of Finance graduate, LLB from Georgetown University, specialist in international risk management and insurance, "captive" insurance companies, and use of operations research techniques for conglomerates and financial institutions. Member of the editorial advisory board of *BUSINESS INSURANCE'S* "Risk Management Reports"



**JOHN A. LINDQUIST, CPCU**, Corporate Risk Manager, Anderson Clayton & Company. Listed in *Who's Who in Risk Management*, served as a Casualty Underwriter for Travelers Insurance Company and Corporate Insurance Manager for General Acceptance Corporation. Member of the American Society of Insurance Management.



**GUYON SAUNDERS**, President, Corporate Systems Corporation. A senior partner in Ordway-Saunders Company. Mr. Saunders has specialized in developing management systems for risk and insurance management programs and has had published a number of articles on the application of cost center management techniques to risk and insurance management.

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**RISK MANAGEMENT FOR RESULTS** a detailed look at practical applications of modern management techniques in a real risk management situation, by Mr. Lindquist.

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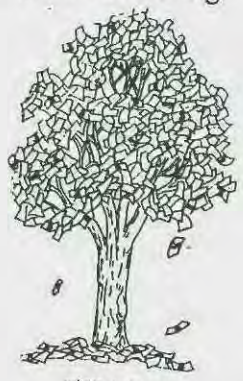
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## Safety meetings play part in work comp retro return

BOSTON—The Boston Housing Authority was granted \$217,714, the largest one-year workmen's compensation retrospective return in the history of public housing,

according to the insurance man who handles the business.

Lee V. Maier, executive vp of Northeast Insurance Agency here, said the substantial retro return

and reduction in the authority's experience modification rating were made possible by a series of on-going monthly safety meetings, claims control programs and compliance with loss prevention procedures.

Those covered by the workmen's compensation program, underwritten by Maryland Casualty Co., are the "several hundred maintenance people at the projects—the boilermen, the people who cut the grass and remove the snow and fix ovens—and their administering and office staffs," Mr. Maier noted.

IN GIVING THE background which led to the return, Mr. Maier explained, "The authority had been guaranteed costs in the past. Then they ran into a bad experience period and were placed in the Massachusetts workmen's compensation assigned risk pool."

In the pool, he added, the authority was placed with Maryland Casualty at Northeast's request. "We wanted to institute a safety program while they were in the pool and the insured risked nothing," he said.

After one year in the pool, the authority was taken out of the assigned risk pool and put on a retro with Maryland and this return is the result.

Mr. Maier said that the monthly safety meetings were continuing.

By the middle of the month following a safety meeting, the project managers who attended must hold a safety meeting of their own at their various projects and report back, he said.

"WE DON'T JUST hold a safety meeting and then forget about it," Mr. Maier stressed.

Regarding the claims control program, he said that copies of accident reports were sent to many persons involved in the authority's workmen's compensation program, from the authority's insurance and safety officer to Northeast to the insurance company.

"Maryland sends out computerized monthly loss runs by case and location," Mr. Maier said. "We keep statistics on the types of accidents and try to project trends. If we see accidents occurring because of poor lighting, we get new lights installed as soon as possible, for example." ■

## people

### Booth named at Synercon

Charles T. Booth was promoted to secretary and treasurer of Synercon Corp., with responsibility for all financial matters including insurance and employee benefits for the insurance-oriented holding company. Mr. Booth was formerly assistant to both officers. He succeeds Webb Follin as treasurer. Mr. Follin is now chairman. He succeeds the late William E. Booth as secretary. Mr. Booth served as controller of Synercon, based in Nashville, Tn., and is a trustee of the company's employe thrift plan.

Wilmer E. Hough was named manager of insurance in the finance department of Bethlehem Steel Corp. in Bethlehem, Pa. He was formerly assistant manager. He succeeds E. R. Seifert, deceased.

Raymond J. Dettore, corporate insurance manager for Sharon Steel Corp., was named to the newly created position of insurance manager of NVF Co., based in Yorklyn, De. NVF, the parent company of Sharon Steel, is a \$400 million specialized producer of vulcanized products and industrial materials with about 8,000 employees. Mr. Dettore will retain his responsibilities for insurance programs for Sharon Steel. He said he will consolidate the firms' insurance programs, and has already combined excess umbrella coverages for the firms. The manager of the NVF accounting department formerly handled the company's insurance.

Wayne Bergstrom was named insurance manager for Twentieth Century Fox in Beverly Hills, replacing Bob Miller who resigned and reportedly went to New York. Mr. Bergstrom was formerly with American Cement Corp., Newport Beach, where he

served as risk manager, a post which was eliminated in a recent corporate restructuring. Twentieth Century Fox recently announced plans to construct a \$40 million recreational park near the Queen Mary in Long Beach, and insurance observers say this is probably the reason why the company reached outside of the entertainment industry to pick a new insurance manager.

George Parker, assistant treasurer for Republic Corp., Century City, Ca., has been given the duties of insurance manager. He succeeds Bruce Gibson, who left to join Arcata National, Menlo Park, Ca., as its insurance manager. Mr. Gibson had the title of manager of insurance administration at Republic.

Tom James was named to the post of insurance coordinator for Sunkist Growers Inc., Sherman Oaks, Ca. He succeeds Ralph Woodward, who retired. Mr. James was formerly in the Sunkist insurance department.

Bill Hackbarth was named insurance manager for Amax Aluminum Co., San Mateo, Ca. Mr. Hackbarth was formerly insurance manager for Whittaker Corp. in West Los Angeles.

Richard C. Smith joined the Zurich-American Insurance Cos. as home office superintendent of loss prevention and control. Mr. Smith was previously with The Hartford Insurance Group in Chicago as regional manager loss control. He also served as safety officer for the state of Kansas highway patrol.

William H. Murphy was named manager of the insurance department at Reynolds Metals Cos., Richmond, Va. He succeeds Paul G. Stickler, who retired late last year after 36 years of service with the company. Mr. Murphy joined Reynolds in 1972 as deputy manager of the insurance department. He previously had been manager of corporate insurance services of Koppers Co. Inc. Mr. Murphy is a past president and director of the Pittsburgh chapter of the American Society of Insurance Management; a past chairman of the property insurance subcommittee of the National Constructors Assn. and he is a former member of the insurance committee of the Manufacturing Chemists Assn.

David Gangloff, former manager of corporate taxes and insurance for California Computer Products, Inc. in Anaheim, started up his own consulting firm specializing in corporate insurance and taxation, headquartered in the Lakewood Chamber of Commerce building. Mr. Gangloff's replacement at California Computer has not been named.

### AMA in Kansas City

The American Management Assn. is holding its first seminar in Kansas City, scheduling a trio of courses for May 6 through May 8. The courses include principles and practices of insurance buying, along with a program on the fundamentals of finance and accounting that will help inform non-financial managers, and a basic systems and procedures course instruction on systems analysis. The sessions are to be held at the Prom Sheraton Motor Inn. Contact AMA's registrar in New York City for reservations and more information.

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# Work comp hearing draws ASIM witnesses

HOUSTON—As Sen. Harrison A. Williams and Sen. Jacob K. Javits take their workmen's compensation show on the road, the occupants of the center ring change but not their opinions—businessmen staunchly support state-regulated systems while labor representatives side with the federal takeover measures.

In a series of public hearings in Portland, San Francisco, Buffalo, and Jacksonville, the battle lines over the National Workers Compensation Standards Act have been tightly drawn, with state proponents pointing to many state accomplishments since the release of the National Commission on State Workmen's Compensation Laws' report. At the same time, federal backers contend the states have not done enough, and probably will not.

The proposed bill (S. 2008), would require state programs to cover all public and private employees, cover all injuries and illnesses arising out of employment and provide for disabled workers or survivors to receive two-thirds of an employee's weekly wage.

**MINIMUM BENEFITS** for total disability would also be guaranteed by the bill. It would eliminate time and dollar limits on employment for either death or total disability payments or for rehabilitation or medical care services. It would also provide for adjustments in benefits as the average weekly wage increased.

At the meeting here, which encompassed witnesses from Texas, New Mexico, Colorado, Louisiana and Arkansas, Sen. Williams heard testimony from a number of business and labor groups, including the Houston and Dallas chapters of the American Society of Insurance Management.

Speaking on behalf of both chapters, August J. Janik of First National City Bank, member of the Houston chapter, opposed S. 2008 because, he said, the Texas legislature had broadened the state's workmen's compensation benefits somewhat, but the legislature does not convene again until Jan., 1975.

**"THIS PROPOSED** legislation contemplates an effective date of Jan. 1, 1975," he commented. "Passage of this bill would require a costly special session of the legislature to conform with the provisions of S. 2008."

The two risk managers' groups also opposed the bill because its standards go beyond those recommended by the national commission.

In his testimony, Mr. Janik said the chapters support the "move to increase payments to modern standards, but we must strive to insure that an employe does not have more spendable income while off work, due to a job related injury, than if he were working full time. The maximum benefits as proposed

by S. 2008 make this a real possibility and will virtually destroy an employe's incentive to return to gainful employment."

The chapters also went on record as opponents of the bill because employers would be liable, on a retroactive basis, for payment of compensation benefits at proposed benefit levels.

**"THIS RETROACTIVE,** feature will cost industry many billions of dollars for which no financial provisions have been made and which raises numerous questions as to responsibility for benefits in the case of a company which has had numerous acquisitions and divestitures," Mr. Janik noted.

Labor presented a united front at the hearing in favor of federal standards.

Representing the Texas state

AFL-CIO, for example, Sherman Fricks pointed out that the Lone Star State ranked 37th among the states in its maximum workmen's compensation benefits and said workers in the state would have the most to gain from the implementation of standards at the national level.

Other labor spokesmen testified that state standards sometimes did not provide enough in benefits for injured workers to pay their food costs.

The bill was also supported, with reservations, by the Texas Industrial Accident Board. J. J. McCuan, a board member, told the hearing that he was against a provision in the bill that would allow the U.S. secretary of Labor to approve each state's program because it would give the secretary too much power.

At the hearing in Jacksonville, the Florida State AFL-CIO president urged quick passage of the bill but said he wanted the state legislature to come up with its own legislation to comply with the bill's provisions in order to continue to operate as a state agency.

**"WE ARE ALL** aware of the original concept of workmen's compensation whereby all injured workers were to receive prompt payments of all the benefits covering wage loss, medical care and rehabilitative services," said Charles Harris of the labor group, "and in turn for this the employe's liability was to be limited to the benefits specified in the law."

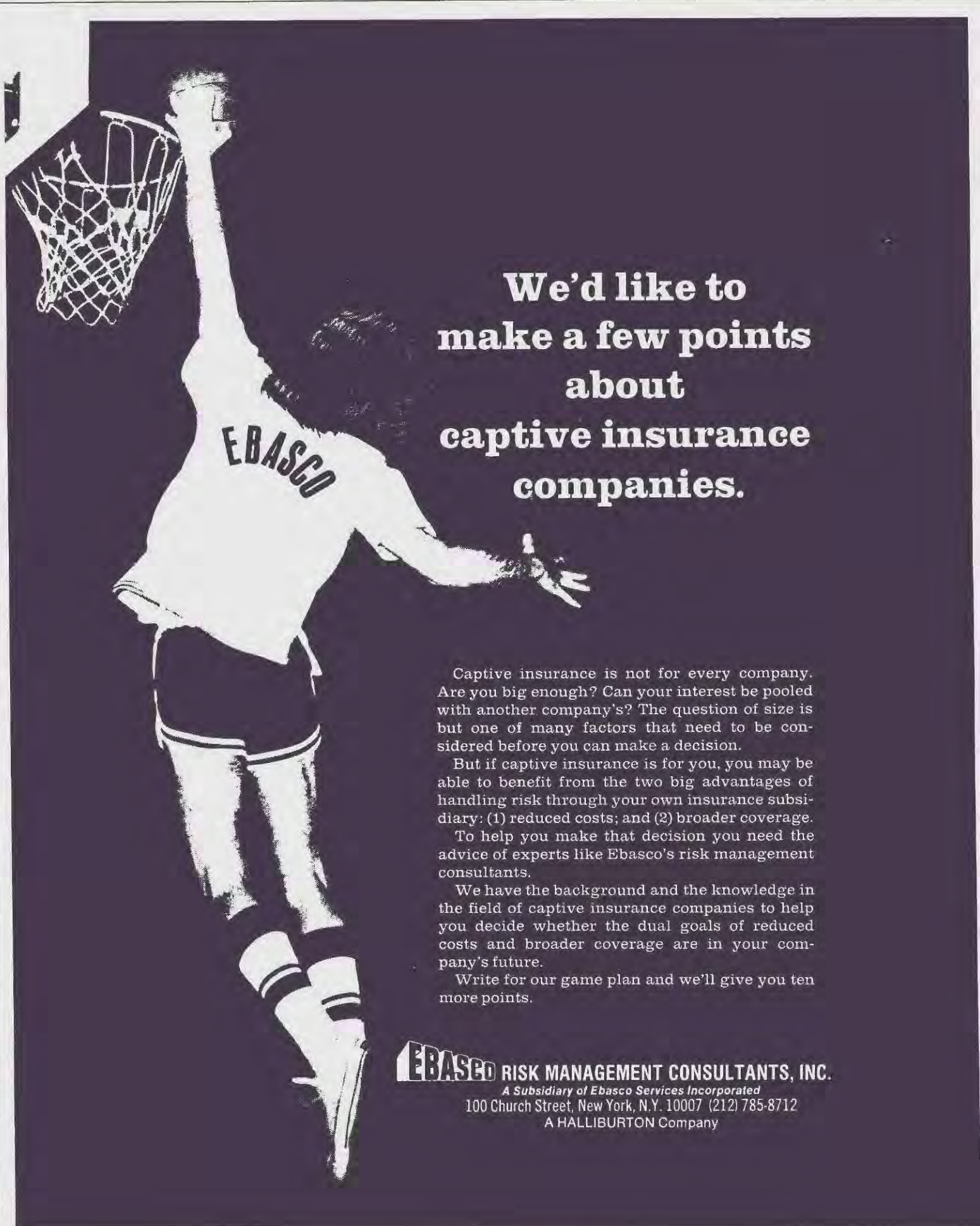
"In the original concept, the injured worker was to receive at least two-thirds of his weekly wage," Mr. Harris continued. "This

concept has long been forgotten by the state of Florida and many other states throughout the nation."

A spokesman for the Associated Industries of Florida told the Jacksonville hearing, also presided over by Sen. Williams, that workers, as well as their employers, would be better off if the bill did not become law.

John L. Shebel, executive vp of AIF, commented, "It cannot be administered by computers or obscure government officials thousands of miles from the injured worker."

This sentiment has consistently reared its head at the hearings among the state system proponents—that the states themselves know the needs of their own people better than a bureaucratic agency far away from the work-places.



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## ESIS regions change

ESIS Inc., a subsidiary of INA Corp. specializing in self-insurance administration, has announced formation of a new Eastern division and personnel changes in three regional offices. The Eastern division will be headquartered in New York City, headed by James S. Carpenter, senior vp. William K. Myrtetus will take the northeast region, Jon T. Carothers is new head of the midwest office in Chicago, and Robert Ham is in charge of the new central region in Kansas City.

# Hancock 'model' benefits cost 41% of payroll

By MARY ANN CALLAHAN

BOSTON—At a corporate expense of at least 41% of its \$77 million home office payroll, John Hancock Mutual Life Insurance Co. gives its 7,000 headquarters employees a benefits program stretching beyond its own basic underwriting into such liberal areas as health maintenance organization-type coverage, financial, psychological and retirement counseling and a combined savings/profit-sharing plan.

Last year the 41% benefits allowance included about 25% for insurance pensions and profit-sharing expenses, with the rest going to vacation, workman's compensation, Social Security, and implementation of the four-day work week now being used by about

3,000 employees, according to Robert F. Thurrell, Jr., senior consultant.

Employees are covered by a generally non-contributory benefit schedule after six months at John Hancock; before that, most coverages are put on a contributory basis, he said.

"OUR PRODUCT is insurance, and like other life insurers, we want to take our position as a leader in employee benefits," Mr. Thurrell said. "We are currently expanding the insurance coverages and special programs we provide, with an eye on what our employees expect," he added.

The benefits program, which cost John Hancock more than \$40 million last year if one counts its entire workforce nationwide, is

backed by a growing employee benefits communications program coordinated by Joseph O'Brien. Mr. Thurrell said that all insured benefits are under-written by John Hancock's own group departments.

To begin with health coverages, John Hancock offers a choice: either the standard group accident and health policy or care by the Harvard Community Health Plan, a health maintenance organization-type program. Each is based on \$100 deductible per illness or accident and 80% coinsurance, he said. The major medical program carries an unlimited lifetime maximum as well as a \$1,000 limit on each employee's out-of-pocket payments for each two-year period of potential disability, Mr. Thurrell noted.

THE BASIC GROUP life insurance coverage, which ranges on a sliding salary-related scale from \$2,000 to \$25,000 limits, may be supplemented by a second mass-marketed life policy available for a lower premium within the company to employees who have completed at least one year. The lower premium is possible because there is no agent's fee; instead, John Hancock sells the policies through regular-salaried "counselors," Mr. Thurrell said.

He said two optional benefits, the survivor income and longterm disability coverages, are available at low group contributory rates of about 1.15% of compensation and .5% of salary above \$3,000, respectively. In addition, John Hancock carries a third layer of 24-hour coverage in case of accidental death of employees traveling by

common carrier.

Despite the scope of present group benefits, Mr. Thurrell said the program does not include group dental, homeowner, auto or legal coverages. He said he does not dismiss the long range idea of group homeowner or auto, but said it would be premature to guess when they might be added.

He said that since the Massachusetts legislature recently adopted the mass merchandising law, there has been difficulty with its requirements that a new group policy must enroll at least one-third of those eligible in the first year and then maintain that percentage in succeeding years.

"UNFORTUNATELY, it seems the legislature has killed mass marketing with kindness," Mr. Thurrell said, "because while it was good to set ground rules, the legislators based them on a high enrollment figure which is hard to get."

Since 1968, John Hancock has had an 'incentive savings plan' (ISP), based on the profit-sharing principle, to increase future compensation to its employees.

The ISP is based on two funds, one purely for profit-sharing and based on an annual net-gain-from-operations percentage, and the other, on investment of savings deducted on a voluntary basis from employees' paychecks. Some 5,000 employees with two years' or more at John Hancock are automatically included in this year's profit-sharing fund and about 4,000 have contributed to the savings plan fund of ISP, Mr. Thurrell said.

The John Hancock unreduced retirement plan, which does not

claim an actual reduction in the event of early retirement at age 60, has been increased twice in recent years, as John Hancock has turned more and more attention to its retiring personnel. In the event of early retirement, health and life coverages are usually continued at 100% level until age 65, and beyond 65, John Hancock continues to pay 50% of the cost, he noted.

IF AN EMPLOYEE retires at age 60, he receives from John Hancock a \$3,000 a year pension supplement until he is 62; at 62, he gets a \$1,620 supplement to add to his reduced Social Security benefits. At age 65, he gets full Social Security and the John Hancock supplement ends, Mr. Thurrell said.

In addition to the group benefits, John Hancock's home office here maintains a subsidized employee cafeteria, a health clinic staffed by doctors and nurses, a counseling office to help employees with retirement planning, financial and psychological problems.

The latest venture, tentatively slated to begin this month, is a pilot physical rehabilitation program. Mr. Thurrell said that the program, which is actually part of an experiment by John Hancock as an insurer, will be limited at first to recently disabled employees in the New England area, including the home office.

Prior to this, Liberty Mutual Insurance Co. has been the only insurer working in the rehabilitation specialty.

Although the John Hancock program is expected to begin on a very small scale, with a budget only scheduled to be drawn up next fall, home office employees will be the first subjects to be treated by a specialized medical staff and the first to benefit.

MR. O'BRIEN told *Business Insurance* he details each part of employee coverages in a looseleaf folder which is updated as benefits change. He said he publicizes benefits news, including the performance of two equity funds, in the John Hancock newsweekly house organ. Employees learn about the benefits program in a first-day orientation program which Mr. O'Brien hopes to expand into several sessions spread over the first six months.

Noting that he expects by 1976 to be able to distribute to each employee an annual benefits statement, Mr. O'Brien said that each employee who has worked at least two years presently gets a quarterly statement on his pension benefits.

"When I came to this job a few years ago, the communication of employee benefits had not previously been given much consideration," he said, "but now, especially with \$40 million involved, John Hancock feels its employees should realize what their rights are. We've started off with the basic communications approaches but we expect to become more and more sophisticated as we go along," he added.

Mr. O'Brien indeed has a long list that stands solidly behind Mr. Thurrell's estimation that "our overall benefits are about the best around when you consider the range of coverages and the very low level of employee contributions."

## Paris office opens

Bellefonte Insurance Co., a subsidiary of Armco Steel Corp., has announced the opening of the Paris office of Compagnie Européenne de Reassurances. The new office will underwrite reinsurance, except facultative, in all classes other than life insurance.

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## labor beat

# Contract talks for telephone workers include health, dental, pension bids

CHICAGO—Communications and electrical union workers employed in the telephone industry are planning to negotiate for new dental coverage and significant increases in health and pension benefits when their labor contracts come up for renewal in July.

Both the International Brotherhood of Electrical Workers (IBEW) and the Communication workers of America (CWA) will conduct national bargaining sessions this year with American Telephone & Telegraph Corp. instead of negotiating with the individual companies. And each union will sign a single three-year contract.

The CWA represents 500,000 operators and other employees in AT&T telephone companies. About 300,000 of these are women. The IBEW has 70,000 members in Western Electric and another 70,000 in Bell Telephone companies.

**ALTHOUGH THE TWO** unions bargain separately with AT&T, their contracts usually provide about the same in wages and employe benefits. "We each go our own way," said an IBEW source. "But we usually end up getting about the same thing."

A CWA spokesman told *Business Insurance*, "Our first bargaining meetings will no doubt be in mid-May in Washington, D.C." He added that the union has drawn up a list of demands it will present to the company in the contract negotiation sessions.

Included in its demands, the union is seeking coverage for:

- dental care;
- pregnancy-related diagnostic tests and pap smear tests;
- annual physical examinations;
- more of the extraordinary medical costs not covered by the company's health plan.

CWA members now pay a \$250 deductible or 2% of income and 20% of costs thereafter.

The union wants a \$150 deductible or 1% of income and a 10% coinsurance for the employe up to \$1,000 out-of-pocket expense. All extra costs would be paid by the employer.

**THE UNION IS NOT** demanding any changes in the life insurance program. Workers now receive coverage equal to their annual wages.

The CWA also wants a "levelling of the contract," according to the union spokesman. Health coverage is provided by Blue Cross-Blue Shield, and not every

CWA member receives the same benefits, due to a local lack of service or provisions in local contracts. "We are demanding the same services for each and every one of our members," he said.

For all its union locals, the CWA wants:

- full coverage of voluntary abortions where they are legal;
- hospitalization coverage 365 days a year. For cases of tuberculosis, alcoholism, drug addiction, or a nervous condition, the union asks hospitalization for 120 days with a

60-day separation clause.

- full coverage for cosmetic surgery;
- elimination of "maternity waiting periods," where a woman is not covered for a pregnancy unless she was not pregnant when she joined the company;
- coverage for in- or out-patient electro-shock therapy, in-hospital consultation, and doctor's office first aid treatment;
- coverage for pre- and post-operative care, pre- and post-natal care, and assistant surgeon ex-

penses.

Included in the CWA contract demands is a model for a new pension formula. CWA members currently receive a yearly pension providing 1% of their best five years' average wage for every year of service up to the age of 55, and 1.5% for every year after age 55. The union wants 1.5% for every year of service regardless of age.

**ANOTHER 1% OF** the average earnings are being demanded for any employe who is forced by the company to retire before the age of 65. And if an employe chooses to retire before age 62, CWA wants the company to provide double the regularly calculated pension up to a maximum of \$300 a month. "This is to help them over the tough spots until Social Security kicks in," the spokesman explained.

The union's retirement age provision will remain unchanged.

CWA members are now able to retire at any age after 30 years of service, or at age 50 after 5 years, at age 55 after 20 years, or at age 65 after 15 years.

The cost-of-living formula for both wages and pensions would be calculated quarterly instead of annually, according to another union demand.

A spokesman for the IBEW said that his union was not ready to announce its specific contract demands. "We very definitely want to improve the health and welfare program, add dental coverage, improve the major medical and we're looking for the usual and customary 100% coverage of basic hospitalization. It is 80% right now."

"There very definitely has to be an improvement in pensions too," he added.

The IBEW has not yet decided when or where it will begin its national bargaining sessions with AT&T. ■



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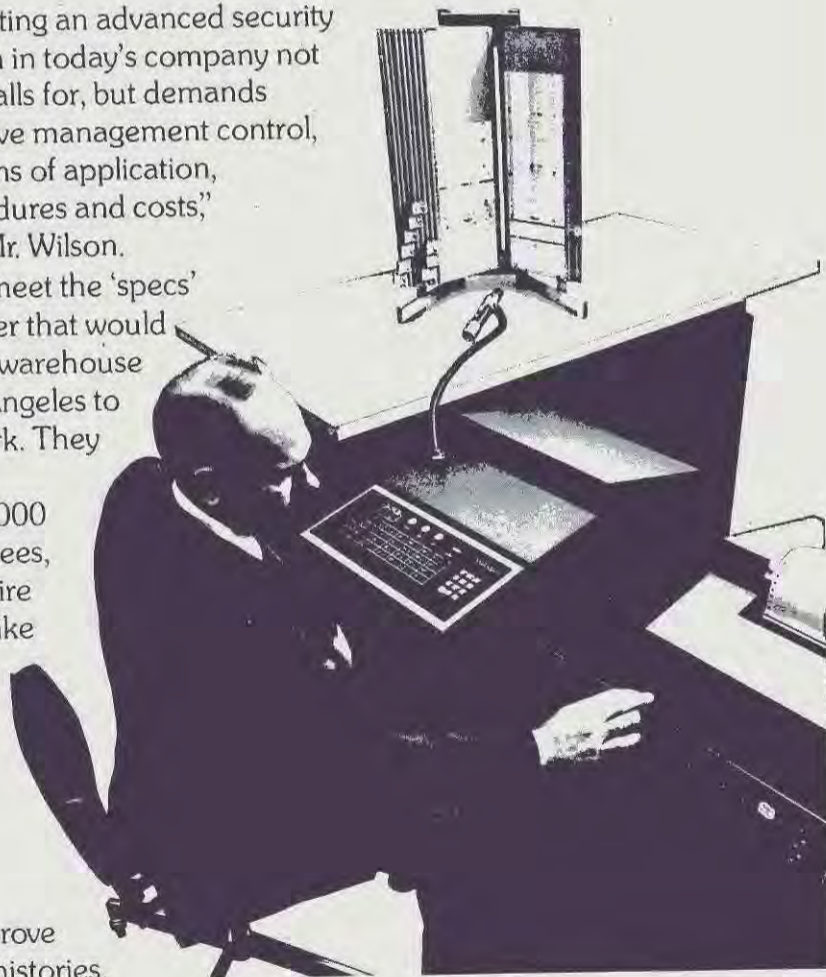
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### State job injuries up

On-the-job injuries in Pennsylvania increased last year by 18% over the year before, bringing the figure to a record high, according to the state labor and industry department. Although the injury rate increased, the number of deaths from workplace accidents decreased to 495 from 564 in 1972. The number of injuries per 1,000 workers increased to 30.7 from 26.8; the 3% rise in the number of workers did not offset the 18% rise in the injury rate. A department spokesman, calling the increase "deplorable," said he could not explain why it occurred.

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# Inland Steel insures risks it can't get rid of; uses many excess covers

By SUSAN ALT

CHICAGO—Financial and insurance executives at Inland Steel Co. just wouldn't feel right asking some of their subsidiaries to relinquish control of separate insurance programs... one large division is older than Inland itself.

But Inland's insurance managers figure they save a good 40% to 50% of costs by using the combined leverage of all divisions for excess coverages, particularly in the casualty area.

"We have a number of different subsidiaries that we don't handle any insurance for," said William F. Burke, manager of the corporate insurance division.

"IT DEPENDS ON the subsidiaries' size and expertise," Robert J. Greenebaum, treasurer of the corporation, added.

"Subsidiaries basically handle their own primary coverage, such as in the casualty area, but we get the benefit of leverage on the excess coverages," enjoined the third member of the team, Philip Saturnino, assistant to Mr. Burke.

Inland is a \$1.5 billion vertically integrated steel supplier and user. It does everything from operating coal and ore mines to producing steel, to building modular structures and shipping containers that use the steel.

Total insurance costs for Inland were not disclosed, but Mr. Greenebaum declared that "we're certainly on the low side of what the normal range is" if a normal range of corporate insurance costs could be said to be between one-half of 1% and 1% of gross corporate sales for many firms. For Inland, this range would mean \$9 million to \$18 million annually.

**THE BIGGEST PART** of Inland, obviously, is steel production, at the southern tip of Lake Michigan. The Indiana Harbor works sets on a peninsula jutting out into the lake.

If anything ever happened to destroy a major part of the works, Inland would be in trouble. Yet, the company doesn't buy business interruption insurance. "Purely economics," Mr. Greenebaum said.

Because every bit of the steel production operation is on one relatively small property—a whopping \$2 billion in assets in one location—insurance premiums would be extremely high for business interruption coverage.

The insurance team did weather studies and studies of flight patterns along with detailed studies of just about anything else that could cause a catastrophe at Indiana Harbor. No history of tornadoes nearby. No planes flying overhead. "So we just couldn't justify the premium," Mr. Greenebaum said.

**INLAND ALSO** made sure—and still does—that buildings at Indiana Harbor can withstand a disaster like a tornado or falling plane. Such an occurrence, the managers figure, would only do a slight amount of damage, and they conclude there is only a remote chance any one building (there are many) would ever be completely destroyed.

Inland has a tank farm and extensive gas pipelines at the Harbor, also presenting major risks. Thus, the planned dispersion of buildings.

"One of the major reasons we've had no losses is our large security force and trained fire patrols," says Mr. Saturnino.

"We probably put nearly as much money into loss control as

we would into insurance," Mr. Greenebaum adds.

All new facilities are getting CO<sub>2</sub> sprinkler systems in areas where there are combustible loadings, Mr. Burke noted.

**BUT IT'S** tough to have good fire protection, i.e. sprinkler systems, throughout factories which are literally "on fire" with steelmaking furnaces. In addition, most buildings are ten stories high for clearance of overhead tramways... "in a building that high, fog off Lake Michigan would do a better job of dousing a fire," the managers laugh. Inland takes pains to see that its Indiana Harbor structures are 99% metal.

Basically the Inland insurance

team manages risks for five major Inland divisions: Inland Steel, Inland Steel Container Corp., Grottes Machine Works, Jackson County Iron Co., and Caland Ore Co. Ltd. Not included in the centralized insurance management bailiwick are Joseph T. Ryerson & Son, the materials handling and steel service center division, along with its construction products arm.

Mr. Burke sums up his responsibilities under the "raw materials divisions" umbrella.

**SOME OF INLAND'S** so-called shelter subsidiaries also handle their own risk management. These include Urban Development Corp., a commercial developer, Allstate Homes, Jewel Builders, Scholz

Homes, Remanco Inc., and Schult Mobile Home Corp.

All of the divisions under Mr. Burke's supervision are covered by a single fire policy and a single boiler and machinery policy (which covers all unfired pressure vessels such as air tanks).

But he doesn't have any insurance for electrical equipment. "We have an ongoing maintenance program for these, plus an inventory of parts and materials to do repairs to eliminate shutdowns," Mr. Burke noted.

The large turbines in Inland's own power plant are insured, however, Mr. Saturnino added.

**INLAND OFFICIALS** declined to disclose who the underwriters of these policies are, except to say they are mainly "large domestic stock carriers." All the policies are spread among different carriers... one per cover is the general rule, said the Inland managers.

The fire policy has a single aggregate limit.

Inland self-insures most of its primary workmen's compensation exposure, but has an excess policy covering specific losses to a high limit.

Inland recently expanded its directors and officers liability insurance coverage, and saved a good 25% of the cost in the process, by taking advantage of the mid-year, 1973, softening of the market, Mr. Burke disclosed.

"**WE FIRST BOUGHT** D&O coverage with high limits in 1968," he said. And Inland had a D&O liability policy even prior to 1968 which involved coinsurance, Mr. Greenebaum added.

Despite the dearth of solid information on loss ratios under D&O covers, the Inland officials believe the insurance industry is telling the truth when it states there are relatively heavy outstanding losses against the policies. But Inland has never had a payout under its D&O policy, Mr. Burke disclosed.

Continued on page 51

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# Inland . . .

Continued from page 50 closed.

The policy expansion gained last summer in a renegotiation involved inclusion of defense cost payments as normal coverage rather than the previous defense coverage as supplemental payments. But the discovery period provision was "kept short," in Mr. Saturnino's words.

"Deductibles were open to discussion," he said.

Inland also has an excess umbrella corporate liability policy, covering liabilities over the company's specific property and indemnity primary policy limits. Part of this coverage is with Lloyd's.

Inland's three executive aircraft require special hull and liability insurance; specific coverage is also needed for Inland's fleet of three ore ships plying the Great

Lakes. Hull coverage for all these exposures is handled "basically through Lloyd's," Mr. Burke noted.

"Property and indemnity and hull coverages are vigorously investigated each year," Mr. Saturnino noted. "We've approached the domestic markets for this coverage, and we've been approached, and so far our decision has been that it is in our best interest to keep our coverage where it is."

**IRONICALLY, THIS** is the same conclusion the Inland managers have drawn about competitive bids solicited for other covers: "We have invited some competitive bids recently in boiler and machinery, and we found that the competitor's bid was higher than what we were paying already, so we left the policy where it was. We find that the relationship we have with our carriers is more important than short-term savings. Historically, we've not shopped for our cover-

age," explained Mr. Burke.

Inland's insurance executives have tended to increase deductibles on the company's policies in the last several years, so they now range from \$25,000 to \$100,000 depending on the policy.

Mr. Burke and Mr. Saturnino have worked out a rather unusual provision for builder's risks, which provides indemnity in addition to builder's risk coverage in the Inland basic fire policy.

"To cover injury to contractors or subcontractors, we require contractors to have general liability and workmen's compensation coverage, plus special contractual liability coverage with an indemnity clause paying for our (Inland's) defense in case of litigation following an accident," Mr. Saturnino stated. "We have been sued on occasion, in complex cases involving an employe of a subcontractor to a contractor that we work with. This is very unusual, though. We usually avoid

legal hassles over liability in about 90% of the cases."

## Claims-handling

**CHICAGO**—Inland Steel Co.'s insurance management department handles a whopping 500-plus new casualty claims a year, in addition to about 30 fire loss claims and another 30 barge accident claims.

Robert J. Greenebaum, treasurer of Inland, told *Business Insurance* that the number of casualty claims—or claims for which new claim accounts are opened in a 12 month period—often substantially exceeds 500, although not running higher than 900. These include auto collision and claims under CGL policies, but do not include workmen's compensation, except subrogation claims, he said.

# Acquisitions of carriers hurt insureds: Union official

**WASHINGTON**—William A. Gillen, president of the Insurance Workers International Union, AFL-CIO, said that the soundness of insurance company reserves could be undermined if conglomerates purchase insurance companies.

Pointing out that insurance company reserves are highly liquid and conservatively invested, Mr. Gillen said insurers are tempting targets for conglomerates because large, diversified corporations "look especially for firms with large liquid assets because these assets can be used to grab still another enterprise."

In a report in *Interface*, newsletter of the Council of AFL-CIO Unions for Professional Employees, Mr. Gillen noted, "The danger to policyholders arises when a conglomerate obtains control of an insurance company and replaces their conservative assets, like government securities, blue ribbon bonds, etc. with stock of the XYZ corporation . . .

"Will the XYZ stock suffice to complete the promise to pay a stockholder 15 years from now?" he asked.

His answer to his own question was no. He said the financial stability of the large life insurance companies should remain controlled by insurance industry officials instead of opening the gates for "outside forces which have no concern of their own for the insurance concept."

## Fire experts in Brazil

The Brazilian government invited a group of leading U.S. fire-safety experts to visit several cities and participate last month in a special fire protection seminar. New York City fire commissioner John O'Hagan and the chairman of the National Fire Protection Assn., Richard Stevens, were among those speaking on building codes and safety standards.

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# Inspection and Insurance

'Things seem to go from bad to worse'

# Longshoremen still most accident-prone in country

By MARY ANN CALLAHAN

NEW YORK—If the port of New York is any indicator, safety continues to be an uphill battle for the longshore-stevedore industry more than three years after it was first declared a target industry in the federal Occupational Safety and Health Administration's war of job accident-injury rates.

Citing the grisly statistic of 16 on-the-job deaths in New York since 1972, Joseph Leonard, safety director for the International Longshoremen's Assn. and co-chairman of the joint New York Shipping Assn.—International Shipping Assn.—International Longshoremen's Assn. safety committee, told *Business Insurance* that "things seem to go from bad to worse, no matter what we do."

What they do, he said, is enforce a strict, comprehensive safety manual written and revised by the joint safety committee. The manual calls for monthly safety meetings with all employees, accident review sessions, posting of safety signs, in addition to requiring special equipment, clothing and other safety precautions.

**IN SPITE OF** regulations, as well as financial pressures on stevedores to pay high compensation rates mandated by federal Department of Labor benefits schedules and the longshoremen's contracts, the longshore industry still seems to be the most accident-prone in the country, Mr. Leonard said.

The National Safety Council, providing some of the only accident-injury data in the longshoring industry, indicates that 20 stevedore contractors who reported their injury rates (out of a total of about 35), for the period 1970-1972, had an average of 32 disabling injuries per million manhours worked, an average 3,070 days lost.

In 1972, the death and permanent disability rate at 20 reporting companies was nearly one

per million manhours worked, 31.36 disabling injuries and 3,990 days lost.

Since 1970, OSHA maritime agents on a regional basis have been inspecting waterfront job conditions. During 1973, an OSHA spokesman said, there were 5,943 inspections at stevedoring companies employing 99,110 longshoremen. OSHA agents found no "willful or intentional violations," but did find 8,927 violations, warranting some 1,340 citations. In those citations, agents proposed penalties of \$75,749. In 4,743 inspections, stevedores were found to be in compliance with the federal work place law, he added.

**ALTHOUGH STEVEDORES** in the port of New York work closely with the ILA on safety issues, their spokesman James J. Dickman in a speech before the National Safety Council last fall drew attention to the fact that "most longshoremen have never suffered an injury. In our port only 16% of the work force accounts for 100% of the injuries. The vast majority of longshoremen have been employed up to 25 years without sustaining an injury."

Mr. Leonard counters with a post-accident program, however, in which he interviews any long-

shoreman involved in a series of accidents. "We try to get to the bottom of it if we have one person involved in a number of accidents or if we have a number of the same or similar kinds of accidents," he said.

**"IT'S RIDICULOUS** if the employer objects to our safety techniques because most of them are self-insured," he said. "They sometimes don't seem to realize that safety measures will save them money in the long run, either in self-insurance or compensation insurance premiums," he added.

He said a current area of special concern is labeling of containers used in international transit. "There is a special United Nations label which is being used to warn longshoremen that a container contains dangerous cargo," Mr. Leonard said. "The label is used in the U.S. but some foreign countries don't use it and we have to unload all the containers when they come into the port of New York."

"This is a potentially deadly hazard because the cargo could blow up without any warning to the man who is unloading it," Mr. Leonard said, "and we're working very hard right now trying to get all countries to use the UN label system in the interest of our workers."



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## Farah workers gain union, but little else

EL PASO, TX.—Employees of Farah Manufacturing Co. ratified their first union contract last month after a bitter 21-month strike and boycott, but managed to gain only minor improvements in employee benefits.

"Just about the only change made in it at all was full maternity benefits," said one spokesman for the company. Another Farah source added that "the non-contributory pension and profit-sharing plans remained untouched."

Amalgamated Clothing Workers announced that its 7,500 Farah workers won increased sickness benefits, higher wages and more holidays in addition to maternity coverage. Officially, however, the union was unwilling to outline specific benefit gains in the new contract.

A source close to Farah told *Business Insurance* that "the union apparently doesn't want the details of the contract to be widely publicized. They were 'adamantly opposed' to releasing information about the settlement's specific provisions at a press conference last month, he said. In an effort to ameliorate labor-manage-

ment relations, Farah does not "want to cross the union" by disclosing all the contract's benefits.

But one union source noted that the workers gained an increase in the major medical limit from \$5,000 to \$10,000. Sick pay also jumped by 50%, up to \$60 a week for a maximum of 18 weeks. Employees are "in the process" of setting up a grievance committee and safety committee, he added.

**THE FARAH** source said that no safety committee had been specified in the contract. "And the company was on the verge of putting maternity coverage in when the strike trouble began," he claimed.

The union also failed to guarantee in its contract many of the traditional benefits provided by the company, the source pointed out. A free transportation system with 25 buses, free eye examinations, glasses, and in-plant health clinics were among the company benefits not in the contract.

Farah's new health insurance package is carried by the Provident Life and Accident Insurance Co. in Dallas.



# london line

## London waiting for definite findings before preceeding on airliner crash

LONDON—Aviation insurers have noted reports in the British Press that the DC10 airliner which crashed near Paris March 3 with the loss of 346 lives may have been affected by a serious defect in the rear cargo door.

But sources close to the market later told *Business Insurance* they were satisfied that all possible steps have been taken to ensure the safety of the DC10 model which is produced at the McDonnell-Douglas plant in the U.S.

"There's no change in our attitude towards the DC10 range, and we're not thinking in terms of any immediate effect in premium ratings," one leading insurer said.

The DC10 airliner was operated by Turkish Airlines on a flight from the Middle East to London.

Investigators from four countries—the U.S., Britain, Turkey and France—went to the scene, and Lloyd's surveyors also flew there to trace the cause of the major catastrophe.

The aircraft was insured basically in Turkey, but substantial insurance was placed in Lloyd's and the company market, which may face losses totalling more than \$50 million, according to the latest predictions.

Hull value of the crashed plane is in the region of \$20 million, and Turkey's Communications Minister Ferda Guley said that compensation to relatives of the victims might reach at least \$30 million. Insurers in London, however, point out that no one can tell at this stage what passenger claims might be.

Reports in the British press claimed a parallel with an American Airlines DC10 which nearly crashed in June 1972 after the rear cargo door blew out at 13,000 feet. This led to immediate decompression, which led to the collapse of the cabin floor above the cargo hold, and the jamming of controls running along the cabin floor.

The pilot landed safely, and the Federal Aviation Authority ordered modifications to prevent a repeat mishap with the cargo door.

Inquiries in London, however, suggested that insurers are following their normal course of waiting for definite results from the crash inquiry before reviewing their position.

\* \* \*

**CAN LOVE BE DULLED** if noise is too deafening?

So far insurers have not been asked to provide cover against this unfortunate liability. But industrial risks to the sex-life of factory plant workers in Britain may have to be taken into account by enterprising underwriters if there is any truth in suggestions in Parliament.

Labor M.P. Tom Torney, from the textile and industrial center of Bradford (Yorkshire County), claimed that impotency is indeed possible if industrial plant noise is too raucous.

Demanding more intensive research by occupational health government advisers, he declared: "Recently a report by West German doctors stated that industrial noise can take away the desire for love-making, and can cause impotence. Do you realise the effect this can have on family life?"

Mr. Torney insisted that this possibility ought to be investigated in the interest of many British workers.

However, other members of Parliament pointed out that the noise created by "pop groups" was often far greater than the level of noise permitted in factories, and there seemed to be no effect on the sexual virility of young people.

Robin Chichester Clark, government minister for factory

safety, closed the debate by rejecting an official inquiry, but agreed that a private investigation into this "emotive subject" might bring more information if it were available.

\* \* \*

**FIVE THOUSAND** British doctors backed a \$250 million pay claim by 260,000 miners which was approved as one of the first acts of the new government under Labor Prime Minister Harold Wilson.

The doctors published statistics which Dr. Hugh Faulkner, secretary of the Medical Practitioners' Union, called "disturbing facts" about miners' health compared with other industries.

The Government's pay board agreed that the coal industry is unique in threats to workmen's health and conceded their right to better treatment.

The new wage policy means a 30% hike to the industry's costs, but ended the three-day week that had put Britain's economy in peril. It includes fringe benefits such as more cash for early retirement and extended sick pay.

The doctors urged: "Those who deny the miners a special case have to be reminded that in terms of death and permanent disability from accidents, occupational chest disease, sickness and stress they carry greater all-round risk than any other group except, perhaps, deep-sea fishermen."

"Lately there has been an improvement in mortality rates because of the industry's medical and technical services which have long battled to improve conditions.

"But miners are still 15 times more likely to die from occupational lung disease than other workers, and four times more likely to die from accidents.

"Mechanization and increased production has increased stress, and improved measures to control dust have barely kept pace with increased dust from high-speed cutting machines."

Factors which Britain's pay board took into account included "waiting and washing time." This is the traditional period, that can often occupy two hours before and after a shift, which miners need to reach the coal face 3,000 or 4,000 feet below the surface, or to clean themselves at the pit-head later. It had never been paid before, but its existence is accepted in the new wage rates. ■

### Statement of assets and liabilities

December 31, 1973 and 1972

ASSETS	1973	1972
Cash in banks and on hand .....	\$ 4,190,565	\$ 3,963,912
Bonds:		
United States Government .....	10,887,573	11,944,111
Foreign Governments .....	761,067	762,432
State, County and Municipal .....	170,455,655	146,820,584
Industrial and Miscellaneous .....	8,583,348	5,542,361
Stocks .....	89,637,611	110,094,927
Total cash and investments .....	284,515,819	279,128,327
Premiums in course of collection... admitted .....	6,621,792	7,220,330
Funds held by ceding insureds .....	42,296,781	36,180,126
Deposits under reinsurance treaties .....	4,533,113	5,956,734
Interest accrued and other admitted assets .....	4,802,285	5,365,602
Federal income tax refund .....	—	1,032,322
Total admitted assets .....	<u>\$342,769,790</u>	<u>\$334,883,441</u>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>		
Reserve for claims and claim expense .....	\$163,919,292	\$143,644,815
Reserve for unearned premiums .....	105,175,317	95,466,101
Funds held under reinsurance treaties .....	13,981,096	15,190,524
Reserve for commissions, taxes and other liabilities .....	3,947,076	4,626,804
Ceded reinsurance balances payable .....	2,771,035	2,381,957
Total liabilities .....	<u>289,793,816</u>	<u>261,310,201</u>
Voluntary special reserves .....	3,752,218	1,127,911
Capital stock .....	5,000,000	4,980,000
Gross paid in and contributed surplus .....	5,830,339	5,830,339
Unassigned surplus .....	38,393,417	61,634,990
Surplus to policyholders .....	52,975,974	73,573,240
Total .....	<u>\$342,769,790</u>	<u>\$334,883,441</u>

Securities deposited as required by law are included above as follows: December 31, 1973, \$10,486,720; December 31, 1972, \$9,420,835. Bonds are valued on an amortized basis and stocks at prices prescribed by the National Association of Insurance Commissioners.



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# dates for buyers

**April 17-21:** International Foundation of Employee Benefit Plans will host an institute in Houston, Tx. Write the foundation, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wi. 53005.

**April 22-24:** American Management Assn.'s reinsurance management seminar will be held in New York City. Write AMA, AMA Bldg., 135 W. 50th St., New York, N.Y. 10020.

**April 28-May 1:** Health Insurance Assn. of America's 1974 annual meeting/group insurance forum will be held in the Drake Hotel, Chicago. It will feature three panel discussions, three major addresses, elective seminar sessions and functional conferences. Write the Health Insurance Institute, 227 Park Ave., New York, N.Y. 10017.

**April 28-May 3:** American Society of Insurance Management Inc.'s 12th annual risk management conference will be held at the Four Seasons Sheraton Hotel, Toronto, Canada. The program centers around what is new in property/casualty and employee benefits. Write Ms. Julie De Marco, ASIM, 205 E. 42 St., New York, N.Y. 10017 (212-557-3210).

**April 29-30:** International Loss Control Institute's total loss control conference will be held on the Georgia State U. Campus, in Atlanta. It is designed to teach the latest in loss control management and help newly appointed safety or loss control personnel how to develop and manage their own program. Write Frank Bird Jr., Executive Director of the International Loss Control Institute, 33 Gilmer St., Atlantic, Ga. 30303 (912-447-3375).

**May 5-8:** International Foundation of Employee Benefits meeting. Sahara Tahoe Hotel, Lake Tahoe, Nevada. Write the foundation, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wi. 53005.

**May 12-14:** New York State Society of Certified Public Accountants and the Foundation for Accounting Education Inc. will host the 1974 accounting show at the New York Hilton. Contact the Charles Snitow Organization, 331 Madison Ave., New York, N.Y. 10017 (212-682-4902).

**May 14-16:** Factory Mutual System's seminar on fire safety and hazard control, at the company office building, Norwood, Ma. For applications write P. G. Lasky, Program Coordinator, Education Dept., Factory Mutual Engineering and Research, 1151 Boston-Providence Turnpike, Norwood, Ma. 02062 (617-762-4300).

**May 15-17:** Purdue University will have a course on fundamental approaches to noise control, in West Lafayette, In. Lectures will be presented mainly by engineers from the industry who are experts at reducing the noise of fans, compressors, diesel engines, etc. Write Prof. M. J. Crocker, School of Mechanical Engineering, Purdue University, West Lafayette, In. 47907 (317-749-2155).

**May 23-24:** Society of Actuaries meeting at the Sheraton-Dallas Hotel, Dallas, Tx. Write Walter S. Rugland, Connecticut General Life Insurance Co., Hartford, Ct. 06115.

## Police maternity leave is non-duty disability

CHICAGO—The city of Chicago's corporation counsel ruled last month that pregnancy among policewomen should be considered a non-duty disability, with benefits granted accordingly.

This ruling also applies to all other female city employees, assistant corporation counsel Mary Parillo said. What will be awarded for each case will depend on different sick plans in each department, she said.

For almost two years policewoman Angela Schreiner, 29, fought for 15 months back pay for her leave of absence before and after the birth of twin sons. The corporation counsel's opinion not only guarantees back pay, according to Ms. Parillo, she also maintains her seniority rights and pension benefits.

Previously, policewomen were required to take a leave of absence in their fifth month of pregnancy. They received only \$45 a month until they returned to work.

The opinion of the corporation counsel—the attorney for the city

of Chicago—was based on federal cases and rulings by the Equal Opportunity Employment Commission, Ms. Parillo pointed out. These rulings state that pregnant women cannot be forced from their jobs into maternity leaves at an arbitrarily-established date. Their lost time must be compensated just as any other employee would be for lost time due to illness or injury.

"From now on there will be no cut and dry rule stating when a pregnant woman must take a leave from her job. When she leaves depends on what her doctor says. If she is physically able to work up to six or seven months, then she can," said Lt. Richard Brzeczek, aid and legal coordinator to the superintendent of police.

**SWORN POLICE** are entitled to six months non-duty disability with full pay, he said. When a sickness exceeds six months, they are allowed to withdraw from the pension fund disability.

According to Mrs. Schreiner, the city police department owes

her \$10,000 in back pay. "We are computing the figures now," Lt. Brzeczek said, but \$10,000 "is obviously too high."

"I require anybody being reinstated to demonstrate their requests with a written report and then we verify it," he explained.

In the next few weeks Mrs. Schreiner and the police department will get together and debate what will actually be awarded in back pay.

**OTHER FEMALE** city employees requesting back pay for maternity leaves will have to file written statements explaining the various dates and fact of the pregnancy. No request can go back further than August, 1972, when sex discrimination was added to the fair employment practices law, Ms. Parillo said.

"I have had numerous phone calls asking about back pay, but so far I have received no written requests. I have a feeling this is not going to be a rapid thing," she added.

No one else has requested back pay in the police department either, Lt. Brzeczek said. The police department has no idea how many policewomen have been pregnant after August, 1972, nor do they know how much this ruling will cost in back pay, the lieutenant said.

## Accidental deaths down, work toll up

CHICAGO—The number of accidental deaths in the U.S. dropped about 1% in 1973 from the year before, according to preliminary estimates of the National Safety Council (NSC).

The drop was partly attributed to fewer motor vehicle fatalities during the last two months of 1973, when the fuel shortage resulted in a decreased use of autos and lower speed limits. The 1973 auto death toll was 55,600, about 1,000 fewer than 1972's total.

Work accident deaths in 1973 increased less than 1% from 1972, totaling 14,200. Disabling injuries from work accidents reached 2.4 million.

Home accident deaths declined by about 1,000 to 26,000 in 1973, a 4% drop from 1972. But the public accident death toll climbed about 4%, to 24,000.

**DISABLING INJURIES** from all accidents totaled 11.4 million, according to the NSC. Public injuries from recreational activities, air and water transportation and accidents in public buildings numbered 3.1 million. Home accidents accounted for 4 million.

Total costs for all accidents reached \$40 billion in 1973. Insurance claim settlement and administrative costs were \$8.6 billion. Wage losses came to \$12.6 billion, medical expenses were about \$4.0 billion, and "indirect" costs of work accidents reached \$5.7 billion.

Property damage in auto accidents totaled about \$6.5 billion in 1973, and property loss in fires came to about \$2.6 billion.

## All American is bought

USLIFE Corp., a financial services holding company with more than 20 subsidiaries, recently completed acquisition of the All American Life & Financial Corp. All American's General United Life Insurance Co., Wilshire Insurance Co., All American Life & Casualty Co. and All American Leisure properties have become new subsidiaries of USLIFE.

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